

# The IMF, the Global Crisis and Human Resources for Health

Still Constraining Policy Space



### **Acknowledgements:**

This report has been written by Fabien Lefrançois (consultant) on behalf of Action for Global Health UK and the Stop AIDS Campaign (campaigning arm of the UK Consortium on AIDS & International Development). The author would like to acknowledge Rick Rowden for his comments. Every effort has been made to ensure that the contents of the report are correct at the time of writing, but the sole responsibility for the information presented lies with the author.

Photos: IRIN (Tugela Riddle/Manoocher Deghati/Allan Gichigi/Vincent Mayanja)

Design: Richard Walker

Published by: UK Consortium on AIDS & International Development (registered charity no. 1113204) and Action for Global Health UK, February 2010

### **Action for Global Health**

Action for Global Health is a cross-European network of health development organisations. The network calls on European governments and the European Commission to act now to support developing countries to achieve the health Millennium Development Goals. In the UK, the core partners of Action for Global Health are: the International HIV/AIDS Alliance, TB Alert and Interact Worldwide.

### **The Stop AIDS Campaign**

The Stop AIDS Campaign is the campaigning arm of the UK Consortium on AIDS and International Development, bringing together more than 80 of the UK's leading development and HIV and AIDS groups. The campaign works to raise awareness about global HIV/AIDS epidemic and to campaign for urgently scaled up international action.

# Table of Contents

<b>Executive Summary</b>	<b>1</b>
<b>Introduction</b>	<b>3</b>
<b>1. IMF policies and human resources for health: potential impacts</b>	<b>5</b>
1.1 Fiscal policy and public spending	5
1.2 Monetary policy and inflation targets: how low is too low?	8
1.3 The IMF, aid projections and external financing	9
<b>2. Has the IMF really changed? Evidence from country programmes</b>	<b>11</b>
2.1 Has the IMF revised its stance on macroeconomic policies?	11
2.2 Evidence from recent IMF programmes	12
<b>3. Conclusions &amp; Recommendations</b>	<b>15</b>
<b>Bibliography</b>	<b>17</b>
<b>Annexes</b>	<b>22</b>





People line up to get tested in a bid to fight malaria and HIV infection by Integrated health campaign, Lurambi division, of Kakamega district, Kenya.

## Executive Summary

In 2006, the World Health Organisation (WHO) estimated that 57 countries were facing a severe health workforce crisis, with a total shortage of more than 4 million health workers. Without these health professionals, the prevention and treatment of diseases and advances in health cannot be achieved. Addressing this shortage, and action alongside it to strengthen health systems around the world, requires substantial, concerted effort from both aid donors and recipient governments. The current global downturn threatens to undermine steps taken in this direction so far and jeopardise progress towards the health-related Millennium Development Goals (MDGs).

In the wake of the global economic crisis, the International Monetary Fund (IMF) has reclaimed some of the relevance it had lost in the past few years. The resources it makes available to borrowing countries have increased substantially. In addition, the IMF has adapted its rhetoric so that it now claims its programmes are more flexible on fiscal and monetary policies, which determine to what extent governments can maintain or increase spending - including of foreign aid - and stimulate economic activity.

Given that IMF programmes do not limit sectoral budgets and wage bill ceilings are now only used in exceptional cases, fiscal and monetary policies are the two main ways which IMF programmes can affect health spending.

IMF programmes are based on the assumption that budgets should be balanced or deficits should be kept low under all circumstances, even when countries have been 'stabilised'. Restrictions placed on public spending budgets on the basis of this assumption can affect health expenditure. Negotiations between the IMF and finance ministries limit the size of overall budget allocations. Non-discretionary expenditures within the budget - such as debt repayments - tend to be prioritised, limiting sectoral budgets. This is particularly problematic in the case of health spending, because the nature of health interventions means they are sensitive to fluctuations in fiscal decisions and likely to suffer disproportionately from expenditure cuts and interruptions in financing. Maintaining human resources for health requires particularly forward-looking budgetary planning.

Monetary policy in IMF programmes can also affect how much is made available for health spending in borrowing countries. By raising interest rates to bring inflation down to unnecessarily low levels, IMF programmes may stifle growth, block investment and limit national revenue, thus reducing resources available for future spending.

In addition, the effect of tight macroeconomic targets and the IMF's overly cautious stance on the volatility of aid flows, combined with the potential negative consequences of increased external financing and the need to use aid to build foreign exchange reserves, can deter governments from spending aid inflows. This, in turn, blocks progress on tackling the health workforce shortage and similarly pressing issues.

Changes in IMF rhetoric seem to indicate that it may finally have shifted its overly cautious stance on deficits, inflation and aid spending. However, detailed examination of IMF pronouncements shows this newfound flexibility is limited and likely to be short-lived. While the global financial crisis has led the IMF to relax fiscal and inflation targets in some of its programmes to support economic activity, countries are encouraged to plan towards phasing out fiscal stimulus measures even before their implementation has started, and keep inflation down to 'business as usual' levels.

These conclusions are confirmed by evidence from selected country programmes – nine examples of lower and middle-income countries chosen on the basis of high HIV/AIDS prevalence rates for their region, as an indicator of their overall disease burden. It shows that countries engaged in IMF programmes will not be in a position to scale up public spending to the extent required to address issues such as the health workforce shortage.

### Summary of conclusions:

1. Despite IMF rhetoric that it has changed its tune and is now more flexible, its policies in programme countries still lead to overly tight macroeconomic practices which severely restrict governments' ability to invest in public health.
2. While the IMF has relaxed fiscal and inflation targets in some of its programmes in light of the global financial crisis, this newfound flexibility is limited and likely to be short-lived.
3. The signalling effect of the IMF's macroeconomic assessments means it continues to wield a disproportionate influence over low-income countries, making them reluctant to deviate from IMF policies and goals even if there is the flexibility to do so.

## Recommendations

1. The interim flexibility that IMF has introduced to its agreements in response to the current economic crisis should be expanded and integrated into ongoing IMF policies and agreements, to allow more space for low-income countries to generate resources to address the critical emergency of healthworker shortages, especially in countries with a high HIV burden.
2. The IMF should reconsider its approach to fiscal deficit and inflation targeting, and allow borrowing governments to explore more options in terms of public spending and development strategies.
3. Donor governments should examine the empirical basis for IMF macroeconomic policy advice and conditionality, and stop deferring to the IMF as gatekeeper for their decisions on aid.
4. IMF programme negotiations should engage a broader range of stakeholders, including health ministries, civil society and healthworker associations, so that debates on macroeconomic policies do not take place in isolation from other economic and social issues.
5. An overhaul of IMF governance is needed to stop the governments who run the institution from applying double standards which force low-income countries to stick to stringent macroeconomic policies which are ultimately damaging for growth and poverty reduction.



# Introduction

The health workforce in many countries is facing a crisis. The shortage of workers is so serious, and human resources for health (HRH) distributed so unevenly between countries that the World Health Organisation estimated in 2006 that 57 nations faced a severe health workforce crisis, with a total shortage of more than 4.2 million health workers. This comes at a time when countries have made commitments to important health targets, including universal access to HIV services by 2010 and the Millennium Development Goals. The health-related MDGs include reducing maternal mortality by three-quarters and child mortality by two-thirds by 2015 compared to 1990, as well as reversing AIDS, malaria and other major diseases. These goals will be difficult, if not impossible, to achieve, unless there is a way to address the staffing shortages and inequitable distribution of human resources for health.

Addressing the crisis in human resources and the wider lack of funding for health requires substantial, concerted effort from both donors and recipient governments. The current global economic downturn threatens to undermine steps taken so far in this direction and jeopardise progress towards the health-related MDGs. Rich countries have reacted swiftly and have adopted counter-cyclical policies aimed essentially at spending their way out of the crisis. Low-income countries face a different kind of challenge. Despite record aid levels in 2008, relative uncertainty about delivery of aid commitments, combined with the impact of higher global fuel and food prices and lower revenue in 2008, have left many low-income countries on shaky ground and forced them to revise their spending plans. The crisis is already having a profoundly negative impact on health outcomes in low-income countries, with the World Bank predicting that 200,000 to 400,000 additional children may die each year until 2015 because of the crisis<sup>1</sup>.

In response to the economic downturn, G20 group leaders have committed substantial resources, with US\$750 billion to be channelled through the IMF. In a sense, this has helped pull the IMF out of the trough of irrelevance where it seemed to be heading<sup>2</sup>, prompting commentators to describe it as coming back from the dead<sup>3</sup>. Indeed, by May 2009, IMF lending had surged, extending to nearly 50 countries, and the institution reports it will boost its concessional lending capacity to around US\$17 billion through 2014, including up to US\$8 billion over the next two years. This is a sharp increase on its 2008 lending commitments of US\$1.6 billion. In addition, a US\$250 billion general allocation of Special Drawing Rights (the IMF reserve asset) came into effect in August 2009, with low-income countries receiving a relatively small portion of this - US\$18 billion - to "bolster their foreign exchange reserves and thereby ease their financing constraints"<sup>4</sup>.

It is unclear how this affects borrowing countries' ability to maintain or increase public spending, and social spending in particular. The IMF claims it has adapted its lending facilities, streamlined its conditions and become more flexible on traditionally tight macroeconomic policies, thus creating space for counter-cyclical policies in low-income countries too<sup>5</sup>. This is relevant to improving health outcomes because there are a number of ways macroeconomic policies can affect health spending, including on human resources for health.

This report seeks to assess whether IMF claims of greater flexibility translate into concrete changes and whether this, along with other factors, has helped create enough space for countries to scale up health interventions and train, hire and retain adequate numbers of health professionals to meet their needs.

1. World Bank (2009), *Swimming against the Tide: How developing countries are coping with the global crisis*

2. See <http://ipsnews.net/news.asp?idnews=35770>, for instance

3. See <http://www.brettonwoodsproject.org/art-562981>

4. IMF, 2009b

5. IMF, 2009b

There has been significant debate between NGOs and the IMF in recent years on the issue of 'fiscal space' and whether governments engaging in IMF programmes are constrained in their options in terms of budgetary allocations to the health sector, through overall and sectoral budget caps as well as wage bill ceilings. As a result of growing pressure from civil society and labour organisations, the IMF has revised its stance on mandatory conditions around wage bill ceilings, and limited their use. In addition, the IMF has made clear it does not set spending limits on specific sectors, that some of its programmes actually include minimum floors on social spending, and that governments are ultimately responsible for allocating budgets and setting priorities.

However, the IMF still insists on macroeconomic policies which negatively impact public spending and domestic borrowing, leading in turn to contractionary effects on local demand and the economy. This can constrain the overall resources available for public spending and limit governments' ability to invest in social services, including hiring, training and retaining badly needed health professionals.

Recent IMF claims that its stance has evolved in response to the challenges posed by the global crisis should be investigated. Specifically, the claims that "in a majority of low-income countries" its programmes now include higher levels of government spending, larger budget deficits and relaxed inflation targets, with one-third of them including targets to preserve or increase social spending<sup>6</sup>. This contrasts with mounting evidence that "the scope for expansionary policies to counter the impact of the crisis on domestic demand and employment has been severely constrained by [IMF] conditionality"<sup>7</sup>.

How much flexibility is the IMF really showing in recent programmes, and does this indeed leave scope for expansionary policies and the spending increases needed to ensure progress towards the MDGs? Or is this new stance still too limited in practice to enable borrowing countries to meet pressing needs in terms of health budgets and health personnel, among other things?

This report looks at evidence from nine IMF country programmes approved in 2008/2009. The evidence shows that flexibility - where it exists - is temporary and limited, even considering existing constraints. This is likely to impede efforts to fund adequate human resources for health.

Part 1 of this report describes how policies in IMF programmes, among other factors, can affect human resources for health, directly and indirectly. Part 2 provides an overview of recent IMF conditions and advice in selected low-income countries and assesses the extent and impact of the flexible stance the IMF claims to have adopted. Part 3 provides conclusions and recommendations to ensure the IMF does not add to the pressures which constrain policy options in low-income countries with a view to addressing the crisis in human resources for health.



6. See IMF 2009b, 2009c and 2009g

7. UNCTAD, 2009. See also Third World Network, 2009, Global Network, Eurodad, Solidar, 2009, Molina-Gallart, 2009, and Center for Economic and Policy Research, 2009



## 1. IMF policies and human resources for health: potential impacts

The IMF is not in the development business<sup>8</sup>. Its primary purpose is to ensure global financial stability through its surveillance and policy advice, and provide short-term financing to correct temporary balance of payment problems for individual countries. In addition, over the years the IMF has increasingly become an enforcer for all external creditors - including the IMF itself - ensuring countries earn enough foreign exchange through exports to repay their debts. This goes a long way to explaining the nature of its policy advice and conditionality. Though at the start of the 1990s the IMF announced that it now had "a clear mandate... to integrate the objectives of poverty reduction and growth more fully into its operations", in practice, the institution is not well equipped and lacks legitimacy to deal with deep-seated imbalances which often have systemic roots. This raises some questions about the institution's long-term involvement in low-income countries.<sup>9</sup>

In the current context where many low-income countries - some of which had actually 'graduated' from IMF assistance and did not require further lending - are facing severe shocks affecting their balance of payments and revenue, there seems to be a case for an institution like the IMF to play a role with genuine short-term assistance to correct imbalances.

However, there are concerns that engaging in IMF programmes to cushion the effects of the crisis may be counter-productive for countries involved, not only in terms of direct health spending but also in terms of growth prospects, which affect the availability of resources in the future. Indeed, there are a number of ways in which IMF advice and conditionality can affect fiscal and policy space in general, as well as the availability of - and ability of countries to spend and allocate - adequate resources to hire, train and retain health professionals.

Given that IMF programmes do not place ceilings on sectoral budgets - and actually sometimes include limits for minimum spending on education and health, for instance - and that wage bill ceilings are now only used in exceptional cases, there are two main ways in which IMF conditionality and advice can affect health spending: fiscal policies and monetary policies.

### 1.1 Fiscal policy and public spending

In large part, debates in recent years between the IMF and its critics - particularly health and education activists - have revolved around the issue of 'fiscal space'. Fiscal space has been defined by the IMF as "the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's financial position".<sup>10</sup> This definition reflects the fact that, while the IMF does not oppose increasing government spending in itself, it argues that this should not be at the expense of its solvency, in order to avoid building up unsustainable debt levels. Then there is the related concept of macroeconomic space, which states that "macroeconomic space exists when a country can increase public expenditure without compromising short-term macroeconomic stability"<sup>11</sup>.

In practice, this means available resources should not be increased through money creation, for instance, but by increasing domestic revenue and improving expenditure efficiency. Increasing revenue - through improvements in tax administration efficiency and tax collection, for example - is a valid option, particularly in low-income countries where the tax base (tax revenue to GDP ratio) is usually low and therefore offers room for improvement. However, this is usually a long, gradual process.

8. Though its Articles of Agreement state that it should "contribute... to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy".

9. See also Lefrançois, 2003

10. Heller, 2005

11. Development Committee, 2006

The other main option governments can use to increase fiscal space without risks to macroeconomic stability is by improving the efficiency of their spending. With this in mind, many past IMF programmes set their sights on overall wage spending, arguing that with a limited overall budget, excessive wage spending could crowd out government spending on other important aspects for quality public services, for instance. Cutting spending on salaries was seen as a valuable tool to free up resources for these other aspects and in effect increase fiscal space.

Critics have argued that IMF programmes include excessively cautious fiscal targets, reflecting the IMF's assumption that budgets should be balanced or deficits kept low under all circumstances, even when countries have been 'stabilised'. The IMF rationale for keeping deficits - and thus domestic borrowing - at low levels is to avoid building excessive levels of public debt and avoid crowding out private investment (see footnote<sup>12</sup>).

Overall, the IMF's continued emphasis on macroeconomic stability over development needs reflects the fact that the rationale for policy choices in its programmes is still grounded in a "purely fiduciary logic"<sup>13</sup>. That is to say, it only looks at the impact of policy measures on a government's solvency, instead of assessing the potential development payback from increased public spending. For this reason, it does not seem right that "the chief dispenser of technical advice on fiscal affairs - the International Monetary Fund - has neither the mandate nor the expertise to combine thinking on human development and poverty reduction with developing high quality advice on enabling fiscal frameworks to secure these objectives"<sup>14</sup>. Rather than expanding the IMF's mandate in this direction, there should be a broader range of technical advisers to draw on different perspectives and areas of expertise.

#### *Potential impact of tight fiscal targets on health spending and human resources for health*

Critics have argued that by requesting or advising governments to set unnecessarily low limits for government spending in borrowing countries, the IMF has unduly constrained health spending and thus hindered improving health outcomes. This is particularly problematic in Sub-Saharan Africa, which bears a large share of the global disease burden without the corresponding health workforce to address its pressing needs. Few African countries have fulfilled the commitment made in Abuja in 2001 to allocate 15 percent of their public budgets to health. While health results do not depend exclusively on health spending levels, it is hardly realistic to expect the needs that have been identified - in terms of health personnel and incentives to deliver quality health services - to be met in a coordinated and accountable way without an increase in health budgets. Wage bill ceilings, in particular, have attracted a lot of criticism for blocking much-needed expansions of the health workforce, pushing the IMF to revise its stance.

What potential impact do the policies promoted by the IMF have on health policies? The IMF has repeatedly pointed out that its focus on macroeconomic targets means its programmes do not include sector-specific targets, whether budget ceilings or wage bill ceilings. The IMF also stresses that it is governments who are responsible for determining budget priorities and deciding what share of available resources can be spent on health, as well as which policies are put in place to ensure these resources are spent effectively.

However, restrictions on the overall envelope of resources available for public spending mean that in practice health spending can suffer from overly cautious targets as well as measures to contain spending on salaries. In August 2008, the WHO released a three-year study by its Commission on the Social Determinants of Health, which found that: "Ceilings on public expenditure associated with the need to secure IMF approval of national macroeconomic policies may limit the ability of governments

12. There is a 'crowding-out' effect when a government borrowing on the local market drives up real interest rates, which in turn acts as a disincentive for private sector investment and limits its contribution to growth. Domestic debt reduction, on the other hand, is expected to have the opposite effect (i.e. a crowding-in effect on private sector investment). There are questions, however, about the relevance and real risks of this crowding-out/crowding-in effect in low-income countries. Research shows that in most regions, cuts in public investment have not typically been compensated by increases in private investment as hoped, reflecting limiting substitution between the two.

13. Development Committee, 2006

14. Ibid.

to pay badly-needed health professionals, although the relative contribution of IMF demands and other factors must be assessed on a country-specific basis<sup>15</sup>. In particular, the study found that Medium Term Economic Frameworks, which are tools to provide three-year rolling budget windows used for planning national budgets, “are set in negotiations between ministries of finance and the IMF, which prioritise very low inflation and avoiding fiscal deficits rather than addressing poverty or health needs. This process limits the size of the total budget and, within the budget, non-discretionary expenditures such as debt repayments tend to be prioritised, limiting sectoral budgets”. Similarly, restrictions on overall public spending can also affect economic growth, which in turn will determine to some extent how much revenue is available and thus a government’s future spending capacity.

The issue of overly restrictive deficit targets is compounded by the fact that the nature of health interventions means they are sensitive to variations in fiscal decisions. Health spending - particularly in countries with weak budget processes - is likely to suffer disproportionately from short-term expenditure cuts, leading to a lack of continuity in service and drug supply. This is due to the fact that because of the imperative of ensuring continuity in services and drug supply for HIV/AIDS, tuberculosis and other major diseases, the consequences for health outcomes of temporary interruptions in funding can be extremely serious. Interruptions to treatment can lead to individual drug resistance and the mutation of the virus to a drug-resistant form. In addition, the process of training and hiring personnel can take several years, which requires forward-looking budgetary planning<sup>16</sup>.

Overall, the influence of IMF programme fiscal objectives and targets on health spending and service delivery can be significant, if not necessarily direct.

The issue of wage bill ceilings has received significant attention in recent years. The IMF preference for this type of policy instrument reflected a concern that excessive wage spending on some sectors can limit the resources available for spending in other sectors. In some circumstances it can also affect macroeconomic stability and, if unchecked, lead governments to increase their expenditure in a way that can become hard to control and curtail.

In particular, the use of external resources to fund recurrent expenditures is a concern for the IMF, since it places a burden on future public spending which depends on unpredictable aid flows (see 1.3). However there is now a growing consensus that wage bill ceilings are very rarely necessary or helpful and that the IMF made excessive use of them in the past, partly because it tried to pursue other objectives through them, such as civil service reform. The IMF itself has identified a number of problems with wage bill ceilings, including incentives to increase non-wage compensation (in-kind benefits) which generate inequities and reduced transparency of wage spending<sup>17</sup>. Their use is now limited to exceptional cases and must be justified by staff in a transparent manner.

In addition, the IMF has been accused of promoting a top-down rather than needs-based approach to setting budgets, by limiting the overall envelope available. As a result, health budgets have been restricted, particularly in countries where the health ministry has low operational planning capacity and finds it hard to secure the necessary resources to step up its interventions.

In the past, the IMF appears to have unduly constrained the range of policy options available to governments (including fiscal policy) and favoured conservative scenarios without clear and explicit assessment of the trade-offs between available options. There are few examples of stakeholders other than the ministry of finance - such as the ministry of health - being involved in discussions on IMF programmes and in weighing up different fiscal policy options. While this is not strictly the IMF’s prerogative, it should do more to question its assumptions, engage with other stakeholders, discuss alternative scenarios and, at the very least, avoid limiting the options available.

15. in Rowden, 2009

16. CGD, 2007

17. Fedelino, Schwartz, Verhoeven, 2006

## 1.2 Monetary policy and inflation targets: how low is too low?

The debate on inflation targets in IMF programmes revolves essentially around the following issue: given that low inflation has a neutral or positive effect on growth, at what point does low inflation start having a negative impact? There is no agreement on precisely where the threshold lies, and consequently opinions vary widely on appropriate inflation targets in IMF programmes. There is a general consensus that inflation rates above 30 percent are harmful for growth, and that very low inflation rates (under 5 percent) can lead to economic contraction. However, this leaves ample room for difference on what levels of inflation can be sustained in a given context. A significant body of research demonstrates that inflation rates between 10 and 20 percent (or even up to 40 percent) are not potentially harmful<sup>18</sup>. So there seems to be little justification for the IMF's usual insistence on single-digit inflation, and its particular keenness to keep inflation close to 5 percent.

Artificially low levels of inflation can be problematic and affect overall spending, and health spending in particular, in a number of ways:

- *Lower growth and revenue*: Lowering inflation levels can have a contractionary effect on the economy and lead to lower growth outcomes. This is measured through the so-called 'sacrifice ratio' i.e. the amount of GDP growth foregone in order to maintain low inflation levels. One of the main tools used to lower inflation is raising interest rates, which in turn makes credit less affordable for local businesses. This keeps them from creating jobs and generating more taxable income (through taxes on profits and payroll) thus generating less revenue and limiting resources available for expenditure, including expenditure for health. In addition, higher interest rates also increase the cost of government borrowing to finance deficit spending, which in turn limits potential resources and policy space.

- *Precluding expansionary monetary policy and aid spending*: Artificially low inflation targets can lead governments to limit monetary expansion even in cases where the benefits would outweigh the costs, as well as limiting aid-financed spending for fear of inflationary pressures. Monetary expansion is not necessarily recommendable but its costs need to be assessed as opposed to the costs of foregoing expenditure. Similarly, failing to spend large inflows of aid - particularly on recurrent costs as opposed to one-off purchases of medical equipment, for instance - because it might lead to a deviation from inflation targets, can have severe costs in terms of development payback (as opposed to fiduciary payback) which need to be assessed carefully.

It is worth noting that recent inflationary pressures are not necessarily home-grown, particularly those resulting from the global surge in food and fuel prices in 2008, and that for countries with low inflation targets, external price pressures might lead to a need to adjust wages in order to maintain inflation targets. Inflation levels in non-oil-producing, low-income countries in the past year were largely the result of global food and fuel prices, thus imported and not driven by policy decisions but by external factors. A tighter monetary policy response in response to exogenous factors causing inflation is unlikely to be effective. On the contrary, it can lead to contracting domestic demand which could further worsen recessionary trends<sup>19</sup>.

Countries facing a health crisis, and the related crisis in human resources for health, need to be able to make informed decisions about the choice of meeting inflation targets versus increasing health spending. This is especially important given the evidence outlined above that inflation levels well into double digits might not actually be harmful and the range of other factors that need to be taken into account. There is a good chance it could be worth enduring higher inflation, at least in the medium term, in order to increase expenditure on health and other public sectors.

Moreover, debates on what level of inflation is appropriate, and whether it is worth foregoing GDP growth and future revenue to achieve inflation targets, should not be limited to meetings between the IMF and ministry of finance officials. This is crucial to ensure that inflation levels are not discussed in a vacuum, excluding other aspects of the 'real economy' - such as economic growth, employment

18. Rowden, 2009

19. ActionAid USA, Bank Information Center, Eurodad, 2008



and investment, for instance - and their potential benefits. There is, in fact, a real trade-off between a decrease in the inflation rate on the one hand, and job creation, higher growth, investment and spending on the other hand, a trade-off which is partly captured by the sacrifice ratio mentioned above. Awareness of this trade-off is helpful in order to address simplistic claims that inflation is bad for the poor, which activists often hear when challenging IMF assumptions on inflation. In this respect, it is helpful to examine the results of a multi-country survey asking people whether they were more concerned about inflation or unemployment. The answers were highly class-dependent across countries, with poorer respondents citing unemployment as their main concern, while wealthier respondents, whose assets were more likely to be eaten away by even moderate inflation, were more concerned about inflation (Jayadev, in Rowden, 2009).

### 1.3 The IMF, aid projections and external financing

In addition to limiting domestic borrowing and favouring low fiscal deficits, the IMF has been accused of limiting the volume of aid resources that countries channel to the health sector in a variety of ways:

- its pessimistic assumptions on aid volatility and commitments;
- its pessimism about the absorptive capacity of governments;
- its cautious approach to the potential negative effects of massive inflows of aid on macroeconomic conditions;
- and a related preference for using aid to build foreign exchange reserves instead of channelling it where it is needed.

An April 2007 study of 29 Sub-Saharan African countries by the IMF's Independent Evaluation Office found that over 70 percent of the donor aid increases given to the countries between 1999 and 2005 was redirected into international currency reserves at the central bank or paying down domestic debt in order to meet strict IMF monetary policies, while they were only allowed to spend 28 percent as donors intended<sup>20</sup>.

Much of the IMF's influence on borrowing countries' policies comes not from the extent of the resources it commits in its programmes - though recent programmes point to an increase in this respect - but because of the enormous weight that its seal of approval carries. Though their response varies, most bilateral and multilateral donors partly base (sometimes explicitly so) their decisions to provide aid to a country on the IMF's assessment of its macroeconomic framework. This powerful signalling effect means the IMF has a serious responsibility to make balanced judgements on how macroeconomic frameworks will respond to certain policy options, as well as a substantial increase in aid volumes.

Past evidence indicates that the IMF has focused excessively on the potential negative impacts of scaling up aid, for a number of reasons, including:

- concern that countries could build excessive levels of debt (even when contracting debt on soft terms). This concern is based on debt sustainability assessments which have been questioned for their wide margins of error, and is less relevant in countries which have benefitted from debt relief;
- scepticism (based on past experience) on a donor's ability or willingness to deliver on aid commitments;
- concern that aid inflows will lead to exchange rate appreciation and have negative impacts on competitiveness and long-term growth.

These concerns are legitimate, but their implications are debatable. Costs and benefits need to be weighed carefully for individual country cases. The IMF should not, in particular, overstate the potential risks to macroeconomic indicators of increased aid, thus limiting the range of options available in terms of scaling-up scenarios, based on over-pessimistic assumptions which can become self-fulfilling prophecies. It should also show more flexibility in the way it reacts to 'aid surprises' i.e.

20. Independent Evaluation Office, 2007a

higher or lower aid inflows than expected. Higher aid inflows should not go systematically to building foreign exchange reserves or supplanting government expenditure, and lower inflows than expected should not lead to systematic expenditure cuts but could be compensated by higher domestic borrowing. Recent IMF claims that it is now doing more to help authorities assess the impact of scaling up aid are encouraging in this respect. However, there is very little information publicly available to show that this is indeed happening.

Whilst not the main focus of this paper, it is worth noting that the IMF's overly cautious stance on the potential negative consequences of increased external financing, combined with tight fiscal targets, drive governments to rely increasingly on off-budget aid to finance health systems. While this can help circumvent excessive constraints on budgets and wage bills, in practice it can also undermine good governance as well as accountability and aid effectiveness. This adds to concerns such as the proliferation of donors in the health sector and aid earmarking.



## 2. Has the IMF really changed? Evidence from country programmes

The IMF has gone to great lengths to convince sceptics that it has become more flexible and responsive in order to help borrowing countries weather the global financial crisis. However, a detailed look at the IMF's rhetoric indicates that changes appear to be limited and are likely to be short-lived. Evidence from selected recent country programmes confirms this (see Annexes).

### 2.1 Has the IMF revised its stance on macroeconomic policies?

In the wake of the global financial crisis, the IMF appears to have revised its stance on fiscal deficits and now claims it allows larger deficits in more programmes. A number of statements have been issued<sup>21</sup> which show an apparent departure from the IMF's tight stance on fiscal deficits, including a declaration by the director of its Research Department to the effect that countries should adopt "whatever policies it takes" to avoid another Great Depression scenario<sup>22</sup>. This has been accompanied by a substantial public relations effort to show that the IMF is doing its part to adapt to current circumstances<sup>23</sup>. The IMF claims it is now more flexible, particularly in Sub-Saharan Africa:

- Fiscal policy: "Because of the crisis, the IMF has generally factored in higher deficits and spending in 2008 and 2009, and has made financial assistance programs more flexible. Fiscal targets have been loosened in close to 80 percent (18 out of 23) of African countries that have an active IMF program. On average for all Sub-Saharan Africa, fiscal deficits are being widened by 2 percent of GDP in 2009 (7.5 percent if oil producers are included)"<sup>24</sup>.

- Inflation targets: "Programs for low-income countries projected an average inflation rate of 5.3 percent for 2008 in October 2007. But during 2008, as world food and fuel prices rose, this objective was relaxed. On average, by October, IMF staff expected inflation in 2008 to reach 11 percent in 2008 in countries with a Fund-supported program, and the outcome was close to 12 percent"<sup>25</sup>.

However, the IMF has also made clear that fiscal stimulus is not for everyone and that some countries will have to adjust. Specifically, the stated IMF staff position on fiscal policy in Sub-Saharan Africa in response to the crisis is that "countries that have macroeconomic stability and fiscal space (i.e., sufficiently strong fiscal accounts that allow them access to financing at sustainable rates) can run expansionary fiscal policy by allowing automatic stabilizers to work and through additional discretionary fiscal stimulus, when appropriate, to contain the impact of a sharp decline in private sector demand in the short run", while countries constrained by a lack of financing or high levels of debt distress might have "no alternative to tightening fiscal policies in the near term"<sup>26</sup>. The IMF also claims that these countries would actually have to tighten more without IMF involvement, given their lack of access to financial resources.

The IMF also notes that shocks in Sub-Saharan Africa are mostly external, so it might not be possible for a fiscal stimulus to directly replace the lost external demand. However, it does admit that fiscal policy can still aim to limit the spillover from lower external demand and falling inflows, by supporting domestic demand for domestically produced goods. It is worth noting that while the IMF uses the external shock argument to highlight the limits of fiscal policy, it fails to see a logical inconsistency in continuing to promote a tighter monetary policy where inflation is largely imported (see above).

Overall, the supposed relaxation of the IMF's stance seems to be limited and temporary, with recommendations that countries "might want to pre-commit to unwinding some of the [fiscal stimulus] policies"<sup>27</sup>, far from a departure from the view that the "fiscal function is essentially prudential in nature"<sup>28</sup>. Moreover, there is no indication that countries will have access to a broader menu of fiscal policy options once the situation improves, as "fiscal stimulus packages should be timely, targeted and reversible"<sup>29</sup>.

21. IMF 2008a, 2009f

22. IMF, 2008a

23. IMF, 2009c, 2009d

24. IMF, 2009c

25. Ibid.

26. IMF, 2009e

27. <http://www.imf.org/external/pubs/ft/survey/so/2008/INT122908A.htm>

28. UNDP, 2006

29. IMF, 2009e

An additional concern which could specifically affect human resources for health is that the IMF still strongly disapproves of some forms of spending increases which would “best be avoided (...) Public wage increases would be poorly targeted and are difficult to reverse”<sup>30</sup>, it argues. Similarly, IMF staff advise countries to create fiscal space through so-called ‘expenditure rationalisation’ – that is, by cutting unproductive spending such as generalised subsidies or excessively large government employment.

## 2.2 Evidence from recent IMF programmes

Countries with high disease burdens, including HIV/AIDS, are particularly in need of investment in their human resources for health. In order to assess to what extent the IMF’s stance has translated into concrete changes which could benefit countries with a high disease burden, nine countries with recent IMF programmes were selected based on their HIV/AIDS prevalence rates<sup>31</sup>. The countries assessed are: Central African Republic, Haiti, Kenya, Malawi, Mozambique, Tanzania, Uganda, Ukraine and Zambia. The analysis focuses on monetary and fiscal policy aspects of these programmes as well as elements related to public wage spending and health spending where possible<sup>32</sup>.

The review of available programme documents shows a relative relaxation of monetary and fiscal policies. However, this still offers only limited opportunities for expansionary, counter-cyclical measures, even though the IMF has repeatedly stated these measures are necessary to avoid deeper, protracted recession. The IMF has not relaxed its policies enough to make it easier to scale up aid to address challenges such as the shortage of healthcare staff.

The relaxation of monetary policy is set to a limited timeframe in some cases. Moreover, while it is necessary to keep inflation in check in some countries affected by the crisis, in most of them overall inflation is no longer a major concern, after the impact of the food and fuel price shocks. Yet all IMF programmes reviewed insist on inflation returning to between 5 and 7 percent as early as 2009 and at the latest by 2011. This means there has been no fundamental shift in the IMF’s insistence on single-digit, unnecessarily low inflation levels close to the 5 percent mark.

Most programmes reviewed included a relative relaxation of fiscal deficit targets to maintain public spending or limit expenditure cuts, with a particular focus on protecting priority spending. However, in the face of often lower revenue, potential spending increases are set to be limited and temporary, offering only little room for fiscal stimulus. In the past the IMF has often argued (in order to justify contractionary policies included in its programmes) that blaming the IMF is equivalent to blaming the messenger of bad news or blaming the physician for the disease. Likewise, it has insisted that constraints on policy options are due to circumstances, as opposed to a fixation on orthodox policy. In the current context, several IMF programme documents claim that in the present circumstances, governments have little choice but to adopt prudent spending policies in the face of lower revenue, deteriorating terms of trade, and uncertainty about the materialisation of aid commitments.

However, while low-income countries can hardly afford to run deficits as high as the United States, for instance, the logic behind counter-cyclical policies that the IMF claims to encourage is precisely to avoid reinforcing contractionary effects by exercising excessive caution. In this sense, it seems the IMF is not living up to its rhetoric, since it fails to encourage governments to implement smaller spending cuts or to increase spending in order to stimulate their economies (with the exception of Tanzania and Uganda). This is particularly problematic given the effort required - in the health sector and other areas - to achieve the MDGs and other health-related targets. Specifically, it risks sending donors the wrong signals on how important aid could potentially be in supporting non-contractionary policies and the positive counter-cyclical role it could play in helping to avoid setbacks to the progress achieved in recent years.

### *Inflation: relative, temporary easing*

An overview of the country documents reviewed shows that while a few programmes include some level of relaxation of monetary policy in order, for instance, to “accommodate the expansion in domestic budget financing” (Mozambique) or provide adequate liquidity to support economic activity (Kenya,

30. Ibid.

31. For a more detailed description of the methodology used, see Annex II

32. For details see matrix in Annex I



Uganda), in practice the short- to medium-term objective of monetary policy is to keep inflation down to single digits. All programme documents reviewed mention inflation targets between 5 and 7 percent for 2009/2010 or 2011 at the latest. This is in line with standard IMF policy advice and conditionality.

It is important to note that these targets are not explicit, mandatory IMF conditions and in one case are actually determined by regional convergence criteria (Central African Republic). However, agreements usually include a mandatory or indicative target on money growth (i.e. expansion of the amount of money available in the economy) which is used to control inflation<sup>33</sup>. This is a typical example of the 'how high (low) is too high (low)' debate on inflation rates discussed earlier (see 1.2).

Bringing back or limiting inflation levels to close to 5 percent as soon as 2009 or 2010 leaves little scope for expansionary policies and there is little justification for this in reviewed programme documents, other than that these targets are in line with governments' medium-term goals (Malawi, Tanzania) often established as a result of previous IMF programmes.

#### *Fiscal deficits and public spending: weathering the crisis or financing development?*

The review of programme documents for the nine countries indicates that in four cases (Mozambique, Tanzania, Uganda and Ukraine), available fiscal space was set to increase in 2008/2009<sup>34</sup>, and that the nine countries will run fiscal deficits in 2009 and/or 2010. This does not necessarily involve higher net government spending. In some cases it actually means maintaining planned expenditure in the face of lower revenue (i.e. avoiding spending cuts) as in the case of Mozambique, Tanzania, and Uganda. Interestingly, in the case of Uganda, it is quite clear from programme documents that IMF staff had to urge the government to revise its fiscal stance, particularly plans to "compress current spending", thus urging "cautious fiscal easing" and warning authorities against the potential contractionary effect of an overly cautious approach. This also included urging the government to limit the decline of the public wage bill as a share of GDP to avoid adverse impacts on service delivery.

Despite this example of changing advice, in several cases actual spending cuts are still deemed necessary, with shortfalls in revenue offset by lower spending (Haiti), a 'rationalising' of expenditures, cuts in non-priority spending (Kenya), fiscal adjustment, a tight budget and spending cuts (Malawi). In the case of Ukraine, fiscal tightening was initially agreed (with a 1 percent deficit in 2008 and a balance in 2009) though with a substantial increase in social spending, but targets were later revised to allow a higher deficit.

While a majority of programme documents mention protecting or maintaining development, social, or priority spending (Central African Republic, Haiti, Kenya, Ukraine, Uganda), this seems to come at the expense of other spending categories. In addition, this commitment is often phrased in neutral or negative terms - i.e. to protect or maintain expenditure rather than increasing it - and is rarely placed in the context of the MDGs or Poverty Reduction Strategy Paper (PRSP) priorities. Instead, the overall emphasis is still very much on ensuring that adopted policies, while cushioning the impact of the crisis, do not jeopardise or disrupt macroeconomic stability (Kenya, Zambia, Tanzania, Malawi, Ukraine).

#### *Wage bills*

A controversial aspect in many past IMF programmes, performance criteria (mandatory conditions) on wage bill ceilings are absent from reviewed programme documents. This is a sign that the IMF's stance on this issue has indeed shifted, perhaps as a recognition that these were often unnecessary and ineffective tools to achieve deeper civil service reform objectives.

Four of the nine programmes, however, include recommendations or commitments to limit or freeze recruitments and public wage increases (Haiti, Kenya, Ukraine, and Zambia) to avoid adding to budgetary and inflationary pressures. In the case of Kenya, the recruitment freeze announced in March 2009 appears to be the result of the government being cash-strapped, due to a combination of factors including drought, higher international prices for food, fuel and fertiliser, and the global downturn, rather than IMF requirements.

33. On whether this is an effective way to control inflation – given that not all inflationary pressures are homegrown – see: CEGAA, RESULTS, 2009a

34. Space between ceilings on Net International Reserves and floors on Net Domestic Assets. Data was unavailable for three countries.

Programmes for Mozambique and Tanzania, on the other hand, include increases in the level or share of GDP of the wage bill. In Uganda, IMF staff actually warned the government against the impact of a decline of the wage bill on service delivery. The CAR programme, interestingly, includes an indicative target on a floor on poverty-related spending on education and health, including salaries.

The author has assessed wage bill trends for some of the countries covered in this report (see Annex III). It is worth noting that these are not mandatory targets or IMF conditions, but actual figures and projections. Out of nine countries reviewed, the percentage of GDP allocated to wages and salaries of central government (2007 to 2010 projection) in three countries show a rising percentage. While Malawi, Zambia and Ukraine show a stable allocation of budget, it is worrying that two countries show government spending on basic civil service workforce actually falling over the years. In Kenya, for example, spending on the workforce will fall from 7.4 percent to 6.7 percent, while in Uganda it is predicted to fall from 4.7 percent to 3.9 percent.

#### *Aid levels*

There is little detailed discussion of expected aid inflows and alternative scenarios if more or less aid materialises during the course of the programme. Most programmes, however, include so-called 'adjusters' to the amount of spending and borrowing permitted and the amount by which international reserves should be built up. These are provisions which specify how governments should adjust targets depending on what level of budget support (for instance) actually materialises during the programme's implementation. In most cases, the required adjustments are symmetrical (as in the case of Malawi, for instance). This means that governments could avoid spending cuts or could spend more if they receive more donor support than expected. On the other hand, governments are also required to spend less if support turns out to be lower than expected. However there is no indication that governments are allowed to increase domestic borrowing, for instance, if donor support levels are lower than expected.

#### *Overall assessment: too little, too short-term?*

It is evident from government and IMF programme documents that spending and fiscal balance targets are usually set based on the overall envelope of available resources, which takes little account of what is needed to meet each country's needs and international commitments, such as the MDGs. While there is a trend towards more flexible monetary and fiscal policy in the programmes studied, leaving some room for increased relative or nominal spending, there are clear indications that this is to be reversible and temporary and the IMF has not changed its fundamental stance towards deficit spending and single-digit inflation targets.

It would be naïve to assume that all governments, and finance ministers in particular, desperately want to spend more but are constrained by IMF conditionality. Things are more complex, from external constraints to self-imposed caution (as in the case of Uganda). Similarly, it cannot be assumed that more spending is necessarily good or effective, and that more overall spending is always good for health or tackling HIV/AIDS. Needs-based assessments to determine spending levels would present some problems, particularly in a global crisis context marked by uncertainty about aid commitments and disbursements. However, despite recent pronouncements, there is a concern that the IMF still assesses fiscal space based on a limited overall envelope, while failing to take into account the need for strong counter-cyclical policies. Its emphasis still seems to be on avoiding excessive inflation and monetary expansion, rebuilding reserve levels - which in some cases is justified in the event of additional shocks - and limiting domestic borrowing. The alternative would be to offer governments a menu of options and identify opportunities for donors to scale up their respective investment, not just to weather the crisis but also to finance medium-term development plans.

In terms of this need to mobilise resources for development in an adverse context, it is striking that the IMF programmes studied place very little emphasis on raising more domestic resources. While the importance of the informal sector adds to low revenue and a traditionally limited tax base in low-income countries, advice on tax reforms (in conjunction with the World Bank) would yield significant resources. While many programmes emphasise improvements in public finance management in order to make spending more effective, advice on tax reforms would probably be a useful complement.

### 3. Conclusions and recommendations

The relationship between public spending on health and health outcomes is complex, at best. However, while the IMF claims that it does not concern itself with sectoral spending, it is clear that the overall spending limits set by its programmes can restrict the resources available for the health sector, and particularly on human resources, through freezes in recruitment or public wages, for instance. Fiscal policy and monetary policy are directly relevant in this respect.

The IMF's acknowledgement, despite all the caveats, that there are alternatives to adjustment policies and that counter-cyclical policies can be justified is a significant step. But for most countries with high levels of HIV/AIDS prevalence and wider health burdens, it has only opened a small window and is at best enabling governments to maintain spending in the face of lower revenue. This is a long way from providing options for badly needed scaling-up of health interventions, despite evidence that successful scaling-up can lead to improved health outcomes without endangering macro stability<sup>35</sup>. This window is not only small but also seems temporary, with the IMF encouraging countries deemed to be in a position to implement modest fiscal stimulus to plan a phase-out of accommodating policies even before they have started to implement them.

In this regard, it is crucial to recognise that macroeconomic stability, while described as an overarching goal and concern in IMF programme documents, is itself a relative concept, informed by IMF staff views and opinions, but which on its own fails to capture a broader scope of policy options. Health activists should not take for granted that prudent or cautious monetary and fiscal policy objectives are the only options available. Activists targeting the IMF often feel intimidated by its insistence on macroeconomic stability because no one wants to appear to favour macroeconomic instability. However, the IMF lies at one end of the spectrum in terms of which economic policies are appropriate, as opposed to holding a universal truth. Claims that inflation hurts the poor - aimed at stifling debate on the issue - deserve more careful examination. This is just one example of why the IMF needs to be challenged on its core area of competence, not just on sectoral or structural aspects.

In addition, the governance of the IMF is relevant to the types of policies it recommends, which in turn impacts upon health spending. Despite announcements in September 2009 of a shift in the way quotas are shared out to improve emerging and developing countries' representation in the IMF's governance structures, borrowing countries and low-income countries in particular are still heavily under-represented. The interest of shareholder countries may well not align with the interests of low-income countries, or more particularly the interests of those seeking poverty reduction and the achievement of the MDGs.

Health activists and others advocating increased fiscal space for low-income countries should focus not only on the exact level of inflation or fiscal deficit allowed, but also on ensuring that appropriate policies are in place to increase domestic revenue. That includes appropriate tax policies and policies to encourage formal employment and growth while fostering competitive national industries. If countries wish to be less dependent on foreign aid and on IMF assessments of their policies, they should explore different paths to achieving growth and development, including policies which would probably come up against IMF disapproval, such as protecting national industries and refusing unilateral trade liberalisation. A key problem faced by low-income countries is a low ratio of tax revenue to GDP. This is one of the most serious constraints to adopting long-term development strategies beyond the IMF's usual two- to three-year horizon.

The IMF has a disproportionate influence on the policies of low-income countries as a result of the signalling effect of IMF assessments of a country's macroeconomic soundness. Numerous other bilateral and multilateral donors make their aid decisions on the basis of these assessments. Although a handful of donors - such as the British Department for International Development (DFID) choose not to base their decisions on the IMF seal of approval - it means there is still an overwhelming additional

35. Hailu, 2007

incentive - on top of IMF advice and conditionality - for borrowing nations not to deviate from the IMF's preferred policies and goals, even if they are not necessarily best in terms of development. This signalling function, which adds to the confusion between the IMF's lending, surveillance and debt analysis roles, among others, means the IMF has an important role in assessing potential scenarios for scaled-up aid. There is little evidence to date, despite indications given to staff by the Executive Board, that these scenarios are routinely analysed and discussed as part of programme negotiations with ministries of finance in borrowing countries, let alone other ministries or other stakeholders. In a similar vein, IMF missions fail to engage as they should with a broader range of stakeholders, including line ministries, civil society, and trade unions. Of the programme documents reviewed, while several mention meetings with private sector representatives during programme design, only one mentions any contact with civil society representatives. While ministry of finance officials might show some reluctance to involve other stakeholders, the IMF is in a position to ensure discussions include a broader range of stakeholders, and should aim for this. The argument that poverty reduction strategy paper (PRSP) processes are the only channel for civil society views is not helpful, given that programme documents actually make little reference to PRSPs in their discussion of macroeconomic policies, and PRSP processes have been criticised for failing to put macroeconomic frameworks on the table.

### Summary of conclusions:

- Despite IMF rhetoric that it has changed its tune and is now more flexible, its policies in programme countries still lead to overly tight macroeconomic practices which severely restrict governments' ability to invest in public health.
- While the IMF has relaxed fiscal and inflation targets in some of its programmes in light of the global financial crisis, this newfound flexibility is limited and likely to be short-lived.
- The signalling effect of the IMF's macroeconomic assessments means it continues to wield a disproportionate influence over low-income countries, making them reluctant to deviate from IMF policies and goals even if there is the flexibility to do so.

## Recommendations

1. The interim flexibility that IMF has introduced to its agreements in response to the current economic crisis should be expanded and integrated into ongoing IMF policies and agreements, to allow more space for low-income countries to generate resources to address the critical emergency of healthworker shortages, especially in countries with a high HIV burden.
2. The IMF should reconsider its approach to fiscal deficit and inflation targeting, and allow borrowing governments to explore more options in terms of public spending and development strategies.
3. Donor governments should examine the empirical basis for IMF macroeconomic policy advice and conditionality, and stop deferring to the IMF as gatekeeper for their decisions on aid.
4. IMF programme negotiations should engage a broader range of stakeholders, including health ministries, civil society and healthworker associations, so that debates on macroeconomic policies do not take place in isolation from other economic and social issues.
5. An overhaul of IMF governance is needed to stop the governments who run the institution from applying double standards which force low-income countries to stick to stringent macroeconomic policies which are ultimately damaging for growth and poverty reduction.



## Bibliography

Action for Global Health (2008) Ensuring Healthy Aid in Zambia. Harmonisation, budget support and the role of civil society in improving aid effectiveness

ActionAid International (2007), Reponse to Calvin McDonald, Adviser, IMF Africa Department

ActionAid International USA (2004), Blocking Progress: How the Fight Against HIV/AIDS Is Being Undermined by the World Bank and International Monetary Fund

ActionAid USA, Bank Information Center, Eurodad (2008), Quick Fixes or Real Solutions? World Bank and IMF Responses to the Global Food and Fuel Crises

AFRODAD (2007), The Macroeconomic Framework & the Fight Against HIV/AIDS in Africa. The Cases of Ghana and Malawi. Policy Brief No 3

Ambrose S. (2009), IMF Reforms: Mere Tinkering or Change We Can Live With?, Foreign Policy in Focus: September 17, 2009

AMREF (2007) People First: African Solutions to the Health Worker Crisis

Baker B. (2008), How the IMF Restricts Health/Education Sector Spending, Presentation, Health Alliance International Macroeconomic Literacy Training, June 19-20, 2008

Baker B. (2009), The Long and Tortured Road to Adequate, Sustained and Spendable Domestic and Donor Financing for Health

Bretton Woods Project (2009), Rebranding hides little change for IMF lending. Bretton Woods Update: 67, September 2009

CEGAA, RESULTS (2009), Evidence of the Impact of IMF Fiscal and Monetary Policies on the Capacity to Address the HIV/AIDS and TB Crises in Kenya

CEGAA, RESULTS (2009a), Evidence of the Impact of IMF Fiscal and Monetary Policies on the Capacity to Address the HIV/AIDS and TB Crises in Kenya, Tanzania and Zambia. Synthesis Report

CEGAA, RESULTS (2009b), Evidence of the Impact of IMF Fiscal and Monetary Policies on the Capacity to Address the HIV/AIDS and TB Crises in Tanzania

CEGAA, RESULTS (2009c), Evidence of the Impact of IMF Fiscal and Monetary Policies on the Capacity to Address the HIV/AIDS and TB Crises in Zambia, 1990 to 2007

Center for Economic and Policy Research (2009), IMF Supported Macroeconomic Policies and the World Recession: A Look at Forty One Borrowing Countries

Center for Global Development (2006), The Nature of the Debate Between the IMF and its Critics, Working Group on IMF Programs and Health Expenditures, Background Paper

Center for Global Development (2007), Does the IMF Constrain Health Spending in Poor Countries? Evidence and an Agenda for Action

Center for Global Development (2007a), Promoting and Protecting High-Priority Expenditures, Working Group on IMF Programs and Health Expenditures, Background Paper

Center for Global Development (2007b), What Has Happened to Health Spending and Fiscal Flexibility in Low Income Countries with IMF Programs?, Working Group on IMF Programs and Health Expenditures, Background Paper

Chowdhury A., Mc Kinley T. (2006), Gearing Macroeconomic Policies to Manage Large Inflows of ODA: The Implications for HIV/AIDS Programmes, International Poverty Center Working Paper No. 17

Chowla Peter (2009), The Potential Development Implications of Enhancing the IMF's Resources. G-24, Policy Brief No. 47

Development Committee (2006), Fiscal Policy for Growth and Development: an Interim Report

Fedelino A., Schwartz G., Verhoeven M. (2006), Aid Scaling Up: Do Wage Bill Ceilings Stand in the Way? IMF Working Paper WP/06/106

Global Campaign for Education (2009), Will the IMF's New Lease on Life Ease or Block Progress Towards Education Goals?

Global Network, Eurodad, Solidar (2009), Doing a decent job? IMF policies and decent work in times of crisis

Gupta S., Powell R., Yang Y. (2006), Macroeconomic Challenges of Scaling Up Aid to Africa. A Checklist for Practitioners

Hailu D. (2007), Scaling Up HIV/AIDS Financing and the Role of Macroeconomic Policies in Kenya, International Poverty Centre Conference Paper No 4.

Hailu D. (2008), The Macroeconomics of Scaling-Up Aid: What We Know in Kenya, Malawi and Zambia, International Poverty Centre, One-Pager No. 67

Heller P. (2005), Understanding Fiscal Space, IMF Policy Discussion Paper

High Level Forum on the Health MDGs (2005), Fiscal Space and Sustainability from the Perspective of the Health Sector

Independent Evaluation Office of the IMF (2007), Structural Conditionality in IMF-Supported Programs

Independent Evaluation Office of the IMF (2007a), The IMF and Aid to Sub-Saharan Africa

International Monetary Fund (1995), Guidelines for Fiscal Adjustment. Pamphlet Series No. 49

International Monetary Fund (2007a), Aid Inflows - The Role of the Fund and Operational Issues for Program Design

International Monetary Fund (2007b), Aid Inflows - The Role of the Fund and Operational Issues for Program Design. Background Paper

International Monetary Fund (2007c), Fiscal Policy Response to Scaled-Up Aid

International Monetary Fund (2007d), IMF Executive Board Discusses Operational Implications of Aid Inflows for IMF Advice and Program Design in Low-Income Countries. Public Information Notice (PIN) No. 07/83

International Monetary Fund (2008a), IMF Spells Out Need for Global Fiscal Stimulus. IMF Survey Online: December 29, 2008

- International Monetary Fund (2009b), Creating Policy Space - Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs
- International Monetary Fund (2009c), Factsheet: A Changing IMF – Responding to the Crisis
- International Monetary Fund (2009d), Factsheet: The IMF's Role in Helping Protect the Most Vulnerable in the Global Crisis
- International Monetary Fund (2009e), Fiscal Policy in Sub-Saharan Africa in Response to the Impact of the Global Crisis, Staff Position Note
- International Monetary Fund (2009f), IMF Managing Director Dominique Strauss-Kahn Urges Further Action to Counter Effects of Global Crisis in Africa. Press Release No. 09/177
- International Monetary Fund (2009g), Response from Managing Director to Sue Perez, Treatment Action Group, April 27, 2009
- Jayadev A. (2006), The Class Content of Preferences Towards Anti-Inflation and Anti Unemployment Policies, Political Economy Research Institute, University of Massachusetts
- Lefrançois F. (2003), Leading a Horse to Water: Is There a Role for the IMF in Poverty Reduction?, Bretton Woods Project
- McCoy D. et al (2008), Salaries and Incomes of Health Workers in Sub-Saharan Africa. *Lancet* 371: 675-81
- Medecins Sans Frontières (2007), Help Wanted. Confronting the Health Care Worker Crisis to Expand Access to HIV/AIDS Treatment: MSF Experience in Southern Africa
- Muchhala B., Rowden R. (2008), IMF Policy on the Global Food Crisis of 2008. G-24, Policy Brief No. 40
- Núria Molina-Gallart (2009), Bail-Out or Blow-Out? IMF Policy Advice and Conditions for Low-Income Countries at a Time of Crisis, Eurodad
- Ooms G., Philips M. (2008), Fiscal Space for Health Expenditure in Mozambique: Blocking Effectiveness of International Funds through Budget Support
- Ooms G., Van Damme W., Temmerman M. (2007), Medicines without Doctors: Why the Global Fund Must Fund Salaries of Health Workers to Expand AIDS Treatment. *PLOS Medicine*: April 2007, Volume 4, Issue 4, e128
- Overseas Development Institute (2009), Interim Report on the "Web-based" G-20 Consultations on the Adaptability and Responsiveness of the International Financial Institutions
- Oxfam (2007), Paying for People. Financing the Skilled Workers Needed to Deliver Health and Education Services for All
- Rowden R. (2009), The Deadly Ideas of Neoliberalism: How the IMF Has Undermined Public Health and the Fight against AIDS. Zed Books
- Third World Network (2009), The IMF's Financial Crisis Loans: No change in conditionalities
- UNAIDS (2007), Financial Resources Required to Achieve Universal Access to HIV Prevention, Treatment, Care and Support
- UNAIDS (2008), 2008 Report on the global AIDS epidemic

UNCTAD (2009), Trade and Development Report. Responding to the global crisis. Climate change mitigation and development

UNDP (2006), Fiscal Space for Public Investment: Towards a Human Development Approach

Wood A. (2006), IMF Macroeconomic Policies and Health Sector Budgets, WEMOS

World Bank, IMF (2008), Global Monitoring Report 2008. Chapter 3: Scaling Up Aid: Opportunities and Challenges in a Changing Aid Architecture

World Health Organization (2006), World Health Report 2006: Working Together for Health

### **IMF country documents:**

#### **Cameroon**

IMF Executive Board Approves US\$144.1 Million Disbursement for Cameroon Under the Exogenous Shocks Facility, Press Release No. 09/250, July 2, 2009

The International Financial Crisis and Global Recession: Impact on the CEMAC Region and Policy Considerations, IMF Staff Position Note, July 2009

#### **Central African Republic**

Central African Republic: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Central African Republic, February 2007

Central African Republic: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, December 2008

Central African Republic: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, June 2009

#### **Haiti**

Haiti: Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criterion, Modification of Performance Criteria, and Extension of the Arrangement—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Haiti, August 2009

#### **Kenya**

Kenya: Request for Disbursement Under the Rapid-Access Component of the Exogenous Shocks Facility—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Kenya, June 2009

#### **Malawi**

Malawi: Request for a One-Year Exogenous Shocks Facility Arrangement—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Malawi, January 2009

#### **Mozambique**

Republic of Mozambique: 2009 Article IV Consultation, Fourth Review Under the Policy Support Instrument, and Request for a Twelve-Month Arrangement Under the Exogenous Shocks Facility—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Mozambique, July 2009

#### **Tanzania**

United Republic of Tanzania: 2009 Article IV Consultation, Fifth Review Under the Policy Support



Instrument, Request for a Twelve-Month Arrangement Under the Exogenous Shocks Facility, and Request for an Extension of the Policy Support Instrument—Staff Report; Staff Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for United Republic of Tanzania, June 2009

#### **Uganda**

Uganda: Fifth Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria—Staff Report; and Press Release, July 2009

#### **Ukraine**

Ukraine: Request for Stand-by Arrangement—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion, and Statement by the Executive Director for Ukraine, December 2008

Ukraine—Stand-By Arrangement—Review Under the Emergency Financing Mechanism, January 2009

Ukraine: First Review Under the Stand-By Arrangement, Requests for Waivers of Nonobservance of Performance Criteria, and Rephasing of Purchases Under the Arrangement—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion, May 2009

Ukraine: Second Review Under the Stand-By Arrangement and Request for Modification of Performance Criteria—Staff Report; Press Release on the Executive Board Discussion, September 2009

IMF Mission Reaches Agreement on Second Review Under Stand-By Arrangement with Ukraine, Press Release No. 09/259, July 10, 2009

#### **Zambia**

Zambia: First and Second Reviews of the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waivers of Nonobservance of Performance Criteria, and Augmentation of Access—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director of Zambia, June 2009

Zambia: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, April 8, 2009

## Annex I - Matrix of policy conditions and commitments in selected IMF programmes

Country/ Programme	Monetary Policy	Fiscal Policy	Public Wages/health spending
Cameroon	Data not available – Letter of Intent and related policy commitments not made public to date		
Central African Republic – PRGF (Approved June 2009)	Expected inflation rate for 2009: 4.7%. Inflation expected to comply with CEMAC convergence criterion (3%) in 2010. No explicit target on inflation in IMF programme	June 2009 revisions to programme targets include a significant relaxation on government spending compared to initial programme targets negotiated in 2008.  Medium-term fiscal target, however, is a domestic primary surplus of about 1% of GDP to limit any adverse impact on fiscal sustainability.	Programme includes an increase of the wage bill by 0.3% of GDP to accommodate an expansion in the number of teachers and health personnel and the unfreezing of salaries from the 1986–96 period.  Programme includes a floor on poverty-related spending (indicative target) ie total spending on health and education including wages and salaries and goods and services.
Haiti – PRGF (Approved June 2009)	Inflation projected at 1% at end-September 2009 (due to a decline in commodity prices) (previous PRGF target was 9.5%) and should increase to 5% for FY2010.  No mandatory target on inflation (though there is an indicative target on the amount of money in the economy).	Overall fiscal deficit revised to 5.3% of GDP, compared to 4.4% in the original programme for 2009 and 2.1% in FY 2008. Shortfall in government revenue offset by lower spending (0.4% of GDP) and covered by exceptional Central Bank Financing. Government will limit new domestic investments to a reduced list of priority projects for the rest of the year.	Delays in passing the 2009 budget will contribute to savings on wages and goods and services.  As a result of the anticipated increase in the minimum wage, the public sector wage bill could be raised by up to 0.4% of GDP. IMF staff urging authorities to limit any rise in public sector wages for employees earning more than the minimum wage.

Country/ Programme	Monetary Policy	Fiscal Policy	Public Wages/health spending
Kenya – ESF (Rapid Access) <sup>36</sup>  (Approved May 2009)	Monetary and exchange rate policy focusing on reducing inflation, providing sufficient liquidity to support economic activity while allowing for a gradual build up in official reserves. Inflation for 2009/2010: 5%	Overall budget deficit 5.2% of GDP for 2008/2009 (compared with 3.6% in 2007/08) to protect key expenditure on infrastructure and poverty reduction, and support demand. Financial gap closed by rationalising expenditure, cutting non-priority expenditures and increasing domestic borrowing. 2009/2010: expected fiscal deficit 5.4% of GDP. Further shortfalls in revenue will be met by corresponding cuts in spending.	Freeze on recruitments in the public sector (not an IMF condition) Civil service wages and benefits (in percent of GDP) projected to decrease slightly in 2009/2010 and 2010/2011 then remain stable until 2014 at 6.3% of GDP.
Malawi – ESF (High Access) (Approved December 2008)	Monetary and exchange rate policies geared toward keeping inflation moderate and supporting the building of reserves: aim is to bring down inflation to medium-term goal of 5% (from 9.3% in September 2008).	Fiscal adjustment through a reduction in domestic borrowing. Targeted domestic borrowing in 2008/09 is 1.4% of GDP lower than in 2007/08.  “A tight budget for FY2008/09 has been approved... fully in line with staff recommendations during the 6th PRGF [poverty reduction and growth facility] review” (IMF staff report).  Programme includes spending cuts (0.4% of GDP) to partially compensate higher interests for domestic debt repayment.  (continued over)	Adjustor on the minimum level of international currency reserves required in the agreement means potential lower donor support to the health sector-wide approach (SWAp) will lead to a corresponding lower international reserves requirement (ie Malawi won't be penalised if donor support for the sector is not forthcoming).

36. No Memorandum of Economic and Financial Policies (which usually lists loan conditions such as quantitative performance criteria) was available for this arrangement at the time of writing.

Country/ Programme	Monetary Policy	Fiscal Policy	Public Wages/health spending
Malawi – ESF  (continued from previous page)		Fiscal space between available credit (net domestic assets) and required level of international currency reserves reduced in 2009 (indicative target)	
Mozambique – PSI and ESF (Approved June 2007 and July 2009 respectively)	Prudent monetary policy geared towards price stability. “Modest” easing of monetary policy in 2009 to accommodate the expansion in domestic budget financing and to limit the adverse impact on credit to the economy. No explicit inflation target – inflation expected to remain around 6% in 2009. The country should maintain low inflation in the medium term.	Temporary easing of fiscal policy to maintain spending in the face of lower revenues. Domestically financed spending will remain within budget allocations, though spending relative to a lower GDP will now be higher than intended. Total domestic spending will rise about 0.32 % of GDP (financed through a temporary increase in domestic financing ) compared with 2008.	Wage bill will increase (by 0.8%) in 2009. This includes hiring 17,500 additional workers, mostly in the social sectors. Additional reform of wage policy will be phased in gradually in following years. The IMF, in coordination with the Ministry of Civil Service, will prepare an estimate of the new pay policy for the fiscal years 2010 to 2012 by end-August 2009.
Ukraine – SBA (Approved November 2008)	Monetary policy tightening in order to reduce inflation to 17%.  Inflation should return to single digits by late 2010, helped by continued transition to inflation targeting and continued prudent incomes policies, and will be anchored around 5-7% from 2011.	The initial agreement included fiscal tightening with a deficit of 1% of GDP in 2008 and a balance in 2009, with substantial increase in social spending (0.8% of GDP).  Subsequently adjusted to a 4% fiscal deficit target for 2009 and 2-2.5 % in 2010.  New deficit target (revised September 2009) set at 6% for 2009, 4% for 2010.	Two-thirds of government expenditure is public wages and social transfers. Government will limit the increase in both minimum and average public wage in line with projected inflation in 2009. In December 2008- January 2009, the wage level for first grade public sector employees will remain constant.

Country/ Programme	Monetary Policy	Fiscal Policy	Public Wages/health spending
Tanzania – PSI/ ESF (High Access) (Approved February 2007 and May 2009 respectively)	Monetary policy eased modestly. Policy aims at reducing inflation to 5% by the end of 2010	Higher deficit spending expected to have stimulus effect on the economy. (In practice this means maintaining spending despite lower revenue].  Overall fiscal deficit (before grants) is expected to widen to 10.5% of GDP in 2009/10  This will be financed partly by additional domestic borrowing.	Projections for wages and salaries of central government: increase in nominal terms but relatively stable in relative terms (percent of GDP) at 5-6%. “The government will continue to implement the Medium Term Pay Policy (MTPP) with a focus on, among others, enhancing salary levels so as to retain the staff while continuing to attract highly qualified ones. Incentives will also be made to attract staffing in the most under- served areas especially under education and health sectors. The medium term projection indicates that wages will be around 5.6% of GDP in 2009/10, and gradually edge upwards to 6.0% for the remaining period”.
Uganda – PSI (approved December 2006)	Monetary policy will continue to focus on disinflation while providing adequate liquidity to support a healthy level of economic activity. Cautious monetary easing in the short-term.  Aim is that inflation should converge to its medium-term objective of 5% by 2010.	Overall deficit (excluding grants) is projected to increase to 7% of GDP, from 4.8% of GDP in FY2007/08.  IMF urged Uganda to revise fiscal stance and plans of the government to “compress current spending”, warning against a potential contractionary impact. IMF urging “cautious fiscal easing”,  (continued over)	IMF pointing out that “Over recent years, the government’s wage bill has declined continuously as a share of GDP. Low wage growth can adversely impact service delivery as well as constrain implementation capacity in government agencies. Likewise, under-budgeting of operational and maintenance outlays can lower investment returns”. IMF  (continued over)



Country/ Programme	Monetary Policy	Fiscal Policy	Public Wages/health spending
Uganda – PSI  (continued from previous page)		maintaining capital and current spending (in addition to development spending) despite lower revenue to “provide some fiscal stimulus to the economy”, with a 2009/10 fiscal deficit at 7% of GDP (before grants).	IMF projections for wage bill actually higher than amounts initially budgeted by GOU.
Zambia – PRGF (Approved June 2008)	Aim of monetary policy is to reduce inflation to 10% by end-2009 and single digits by 2010 (5.9% in 2011). The “scope for expansionary policies... is constrained by the ability to finance an increased government borrowing requirement without excessive monetary expansion”.	Anticipated fiscal space not materialising due to lower mining revenue, therefore planned increase in spending will take place at a slower pace. Capital spending is budgeted to increase by 1.2 percentage points to 4.9% of GDP, while current spending remains fairly flat. The overall fiscal deficit (including grants) would widen by 0.9 percentage points to 2.6% of GDP, while domestic financing would rise somewhat less to 1.9% of GDP.	Overall fiscal deficit (including grants) of 1.7% of GDP for 2008 exceeded the programme target by 0.6 percentage points of GDP in 2008 – partly because of a higher-than-budgeted wage bill.  “To protect the domestically financed portion of capital spending, it will be critical to contain current spending, particularly on wages and benefits.”
<p>Source: IMF programme documents</p> <p>Note: ESF – Exogenous Shocks Facility PRGF – Poverty Reduction and Growth Facility PSI – Policy Support Instrument</p>			

Annex II – Country selection

An initial requirement was that the sample would include 10 countries with an IMF agreement, regardless of the type of agreement. Countries to be included in the sample were selected based on a limited number of criteria. These included:

Income

The report focuses on low and lower-middle income economies (according to World Bank categories<sup>37</sup>). These countries are more likely to receive significant amounts of debt relief and aid (both budgetary and sector-specific), and the IMF is likely to play a significant role, through conditions attached to its loans, policy advice, and indirectly through its signalling role.

Estimated HIV prevalence

A major variable for country selection was the estimated HIV prevalence levels in 15- to 49-year-old adults (UNAIDS, 2008). HIV prevalence is a good proxy for determining which countries are likely to require scaled up HIV/AIDS-related interventions, particularly hiring and training health workers, in order to reach the MDGs.

The respective merits of a single prevalence cut-off point as opposed to various cut-off points reflecting regional differences were considered. A single cut-off point set at 3 percent across regions would have the advantage of including only high-prevalence countries in the sample. However this would also have the effect of excluding all but one country outside Sub-Saharan Africa, while offering only limited sample homogeneity, given the wide range of prevalence levels in this sub-region. Twenty-two countries in Sub-Saharan Africa have estimated HIV prevalence levels above 3 percent, which in any case would be too broad a sample for the purposes of this study. Introducing even a minimum level of regional diversity has the advantage of including countries with different implementing capacities and with differences in the donor landscape.

As a consequence, in order to ensure at least some representation of other continents it was decided to use different cut-off points for Africa and for other regions (using 2008 UNAIDS data and regional divisions), setting these at levels considered high or at least significant given regional differences.

- Sub-Saharan Africa: the cut-off point for this region was set at 5 percent. As a result, countries included in the sample were: Cameroon, the Central African Republic, Malawi, Mozambique, Kenya , Uganda, Tanzania, and Zambia.
- Other regions: for each region (as defined by UNAIDS), the country falling in the specified income categories and with the highest prevalence rate was selected, with a cut-off point of 1 percent. Combined with the requirement of having an IMF agreement in place, this left only two countries: Ukraine and Haiti.

As a result, the following countries were chosen for the study: Cameroon, Central African Republic, Haiti, Kenya, Malawi, Mozambique, Tanzania, Uganda, Ukraine and Zambia.

Country	Estimated HIV prevalence (%), 15-49 year olds	Type of IMF agreement
Cameroon	5.1	ESF
CAF	6.3	PRGF
Haiti	2.2	PRGF
Kenya	[7.1 - 8-5] High - Low	ESF
Malawi	11.9	ESF

37. See <http://go.worldbank.org/D7SN0B8YU0>

Mozambique	12.5	PSI/ESF
Tanzania	6.2	PSI/ESF
Uganda	5.4	PSI
Ukraine	1.6	SBA
Zambia	15.2	PRGF
<sup>i</sup> Though official estimates are currently not available in the case of Kenya, the low-estimate/high estimate range provides enough indications to include the country in the sample.		

### **Annex III - Government wage spending**

#### **Wages and salaries of central government, 2007-2011, in % of GDP, according to country documents assessed**

	2007	2008	2009	2010
CAR	4.2	3.8	3.5	
Haiti	3.5	4.4	4.9	4.8
Kenya	7.4	7.4	6.9	6.7
Malawi	5.1	5.5	5.8	5.5
Mozambique		8.1	8.9	
Tanzania	5.0	5.0	5.9	5.8
Ukraine	4.6	4.6	5.0	4.5
Uganda	4.7	4.5	3.9	3.9
Zambia	7.7	8.4	8.5	8.1

