



How (and Why) the IMF Blocks Health Sector Spending in Developing Countries

Prof. Brook K. Baker

Health GAP (Global Access Project)

Northeastern U. School of Law, Program on Human Rights
and the Global Economy

Macroeconomic Literacy Training

March 12-13, 2009



Introduction

- Background on IMF's institutional role and practices.
- IMF macroeconomic stability and fiscal restraint policies prevent needed expenditures on HIV and other health programming whether funded from domestic or donor resources.
- In particular, new evidence documents that IMF policies restrict spending of new aid funds in sub-Saharan Africa and that IMF policies are correlated with worse disease outcomes.
- Independent, academic, and NGO critiques urge more expansive, pro-growth and pro-health policies.



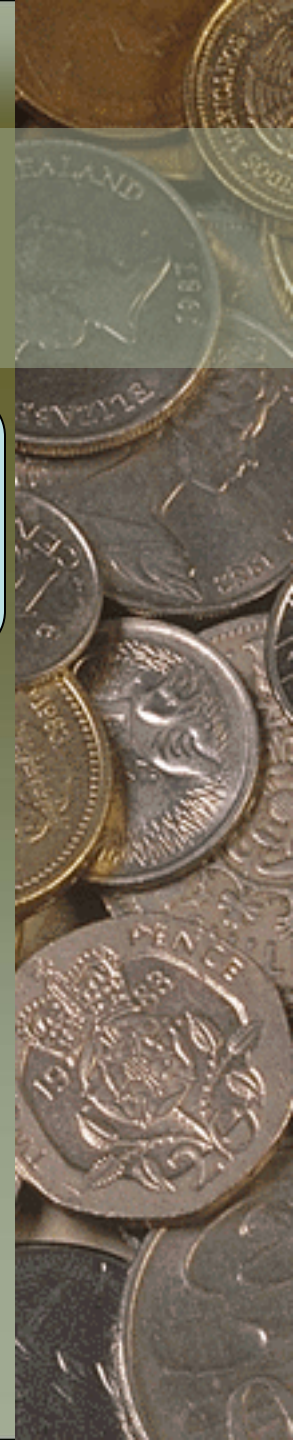
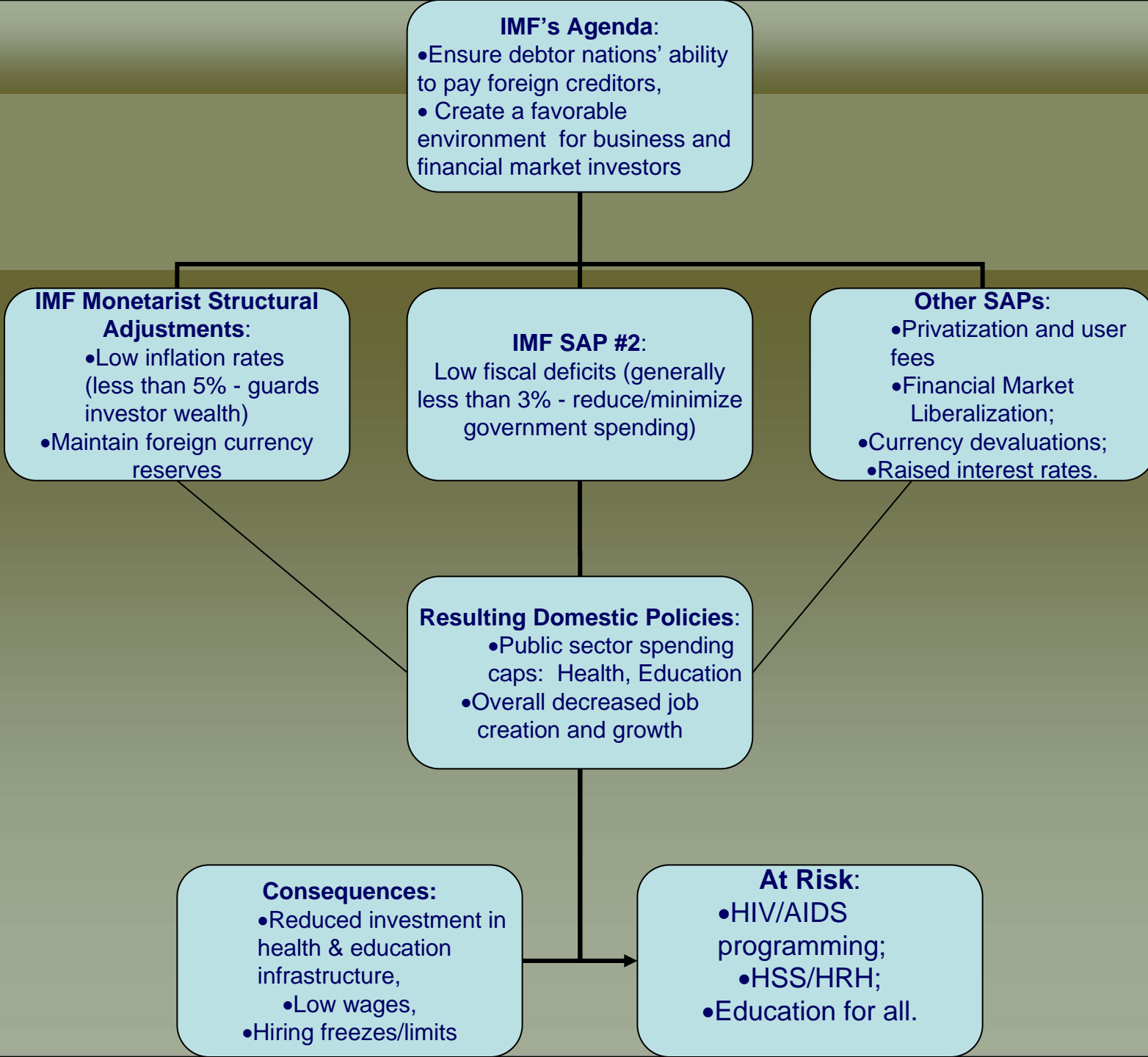
Effects of Globalization

Continuation of colonial patterns of ownership;
Wealth extraction;
Increased inequality

African Debt:
Still over \$200 billion;
Paid with foreign currency reserves;
Source of IFI hegemony

Focus on export/import economies:
Destabilized rural economies;
Labor market liberalization
Race to the bottom





Key IMF Assumptions

- Low inflation, low deficits
- Ample currency reserves
- Debt payment/reduction comes first
- Public spending is wasteful
- Health spending is relatively unimportant
 - Wage caps, budget ceilings
- Free trade/exports/comparative advantage
- Aid volatility/domestic sustainability





Key Findings IEO Report (2007)

- Aid flows are still very modest, though there has been an increase since the late 1990s.
- 29 sub-Saharan African countries experienced some increases in foreign aid 1999-2005.
- Most of those receiving more aid were post-conflict or good-performing.
- A substantial portion of the increased aid was in the form of debt relief. Figure 2.1A.
- From 1980 to 2005 there were dramatic reductions in fiscal deficits and in inflation rates.



Key IOE Findings – Hydraulic Pressure → Fungibility

- On average, 37% of all additional aid was indirectly diverted to increase foreign currency reserves; another 37% was diverted to reduce domestic debt; only 27% was actually spent.

Figure A2.9.

**Average Programmed Use of Aid Increases in
All SSA PRGFs**
(In percent of anticipated aid increase)

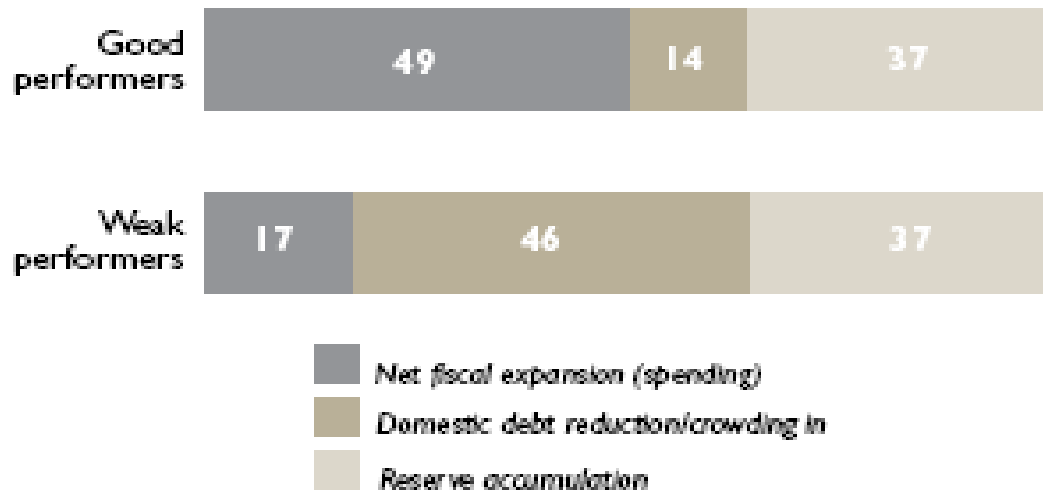
Increased net imports (absorption)		Reserve accumulation
63		37
27	37	37
Net fiscal expansion (spending)	Domestic debt reduction/crowding in	Reserve accumulation



Poorer, Weaker Countries Spent Even Less

- Good performers (low inflation, high reserves) spent 49%, weak performers only 17%.

Figure A2.11. Spending and Absorption in Sub-Saharan Africa: The “Mature Stabilizer” Performance Criteria¹



Reserve Ratios and Inflation Rates were Key Determinants of Fungibility

- Countries with less than 2 ½ months of reserves put 95% of increased aid into reserves; countries with high reserves absorbed 100%.
- Countries with more than 5% inflation put 85% of increased aid into debt reduction. Countries with inflation below 5% put 21% into debt reduction.



Figure 2.2. Programmed Absorption of Aid Increases

Average programmed current account response to increases in aid in SSA PRGFs
(In percent of anticipated aid increase)

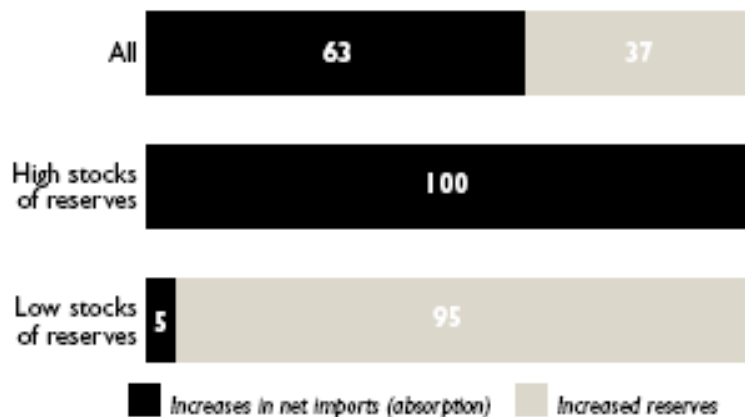
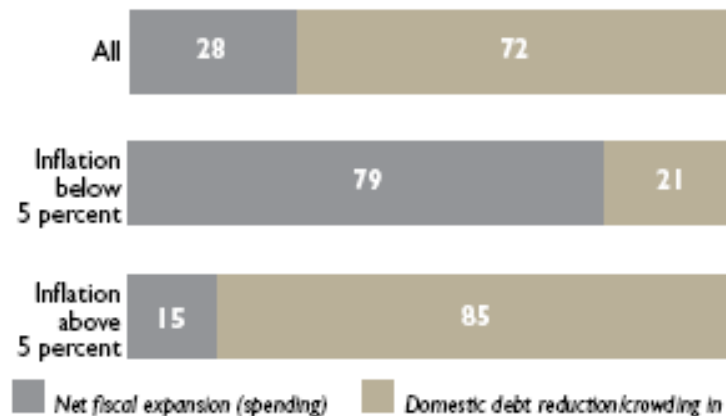


Figure 2.3. Programmed Spending of Aid Increases

Average programmed use of anticipated aid increases in SSA PRGFs with high stocks of reserves
(In percent of anticipated aid increase)

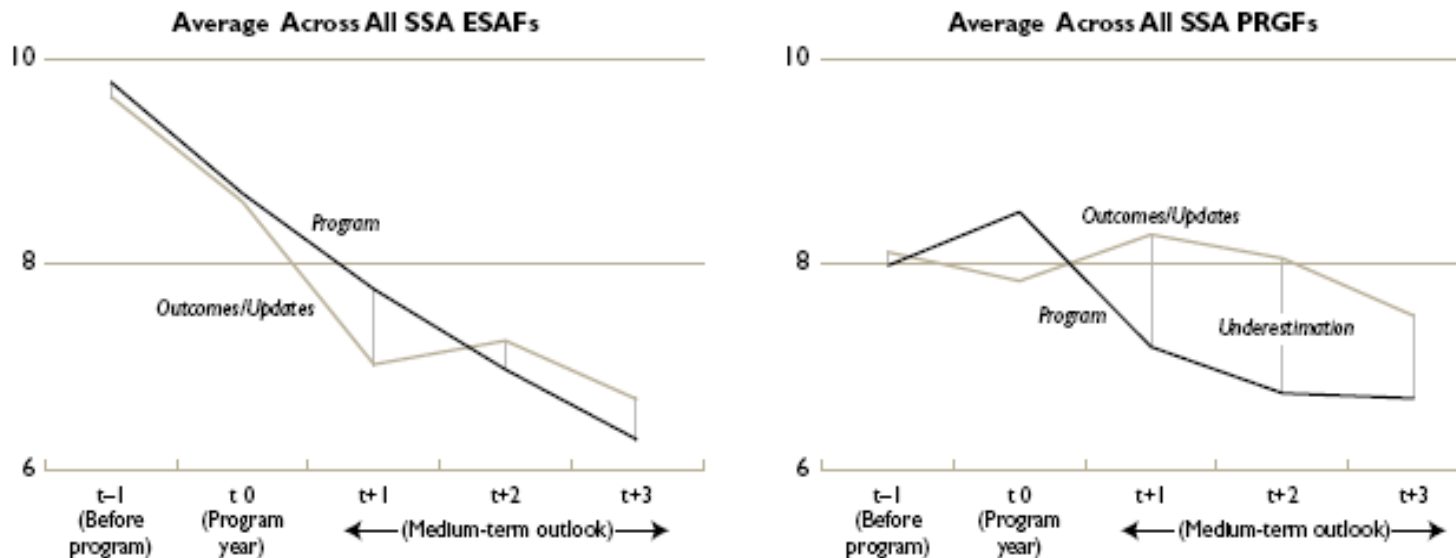


Key IEO Findings – IMF Discounts Future Aid Flows

Future Aid Flows

- IMF PRGFs have historically limited domestic financing of aid shortfalls and required full saving of windfalls; IMF discounts future aid flows, which reduces the amount of aid actually spent.

Figure 2.6. Programmed and Actual Aid Flows: PRGFs Underpredicted Medium-Term Inflows¹
(In percent of GDP)



Key Center for Global Development Findings (2007)


- The modest increases in health expenditures have only succeeded in restoring previous budget share for health.
- Actual average expenditures for low-income countries have only increased from \$10 to \$15, far less than the \$40 recommended by the Commission on Macroeconomics and Health (2001).



Key Center for Global Development Findings

- IMF has not done enough to explore more expansionary, but still feasible options.
- Empirical evidence does not support pushing inflation to the 5% level in low-income countries.
- IMF should consider the supply side benefits of additional spending on spare capacity utilization, investment, and future output growth.
- Wage bill ceilings have been overused (but were included in 1/2 of recent IMF programs in LICs).





IMF Executive Board Responses - PIN no. 07/83 (July 19, 2007)

- Business as usual
 - No pursuit of increased donor aid
 - No alternative scenarios provided unless asked
 - Must ensure competitiveness, low inflation
 - Countries should smooth aid expenditures
 - Countries should reduce aid reliance over time
 - IMF will reduce and monitor use of wage bill ceilings.



Real World Case Study

UNDP Zambia

- IMF and World Bank conditionalities imposed as part of Zambia debt relief package resulted in “less capacity to invest in human needs,” including health, than Zambia had before debt relief.
- Alternative policies to raise taxes, expand the fiscal deficit, and obtain and spend for foreign aid would buttress Zambia’s efforts to reach MDGs.



New Evidence – Higher TB Rates and Deaths Correlate with IMF Programs

- IMF programs in 21 post-communist countries over a 20 year period were correlated with a 13.9% increase in TB incidence, a 13.2% increase in TB prevalence, and a 16.6% increase in TB mortality.
- There was a 30.7% decrease in mortality associated with exiting IMF programs.
- IMF programs correlated to large decreases in government expenditure, TB program coverage, and the number of physician per capita.



IMF Financial Crisis Loans

Bhumika Muchhala, Third World Network (2009)

- Nine stand-by loans (Georgia, Ukraine, Hungary, Iceland, Latvia, Pakistan, Serbia, Belarus, and El Salvador)
- Fiscal deficit reductions in all cases – targets of 3% or lower.
- Monetary policy in all cases – highly restrictive inflation targeting via higher interest rates and reduced money supply.
- In some cases, reduced or frozen public sector wages.
- In some cases reducing public expenditure as % of GDP.



NGOs' Critique

- Macroeconomic stability is never adequately defined and current targets are unjustified in the economics literature.
- The prevalence of wage bill ceilings and their future use is deeply problematic.
- The IMF continues to prioritize currency and aid volatility buffers, inflation and debt reduction, and expenditure smoothing even if they prevent significant new investments in HIV/AIDS programming, human resources for health, health education, and health system strengthening.



NGOs' Critique

- IMF continues to ignore the reality of underutilized domestic capacity and the positive development impacts of investments in health and education; similarly, it ignores the importance of creating and preserving human capital.
- IMF macroeconomic fundamentalism will have even greater adverse effects on HIV/AIDS and other health spending given rising food and fuel prices in poor countries.



NGO Campaigns

- IMF should support broader and deeper debt cancellation.
- Governments must be forced to instruct the IMF to drop conditionalities and to allow needed investment in health and education.
- IMF should allow outside experts and public stakeholders to participate in developing alternative policy scenarios and in impacting policy decisions.
- IMF's proposed gold sales present an ideal opportunity for international collaboration – Day of Action.



Sources

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