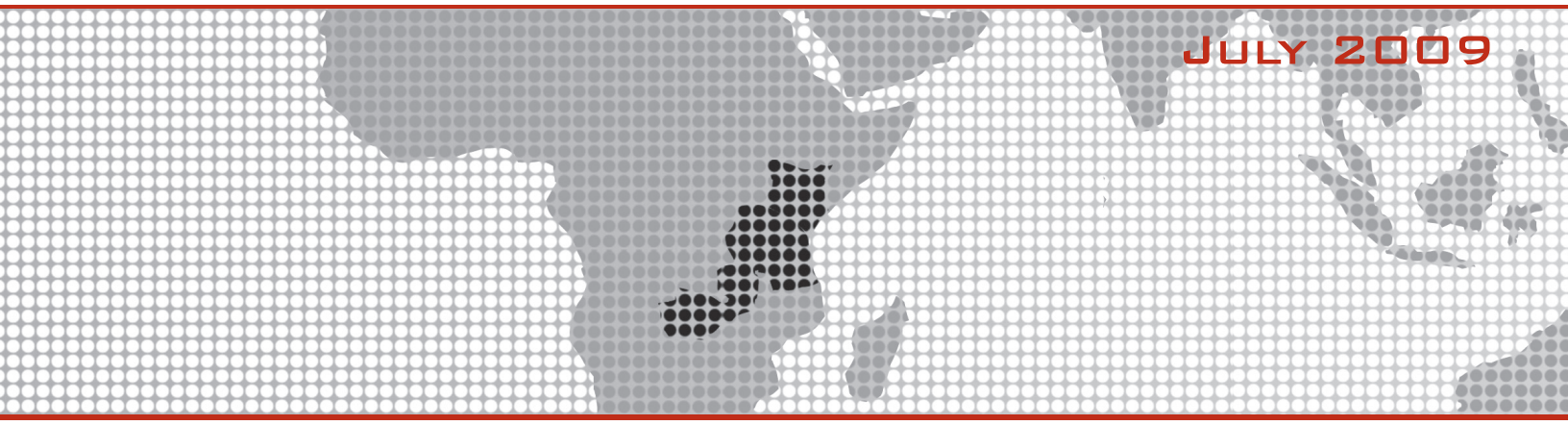

The IMF in Kenya, Tanzania and Zambia: Implications for Health and Development

Summary

This brief summarizes the findings from 3 in-depth country studies on the impact of International Monetary Fund (IMF) macroeconomic policies on health crises and health spending in Zambia, Kenya, and Tanzania. The studies found that the quantitative targets and other macroeconomic policies within the IMF programs for Kenya, Tanzania, and Zambia are overly restrictive, which restricts options for the government and donors to support a "scaling-up" agenda needed to address the health and development needs of these three nations. None of the three countries is on track to meet the Millennium Development Goals (MDGs) for health or the promise of Universal Access to AIDS treatment, care, and prevention. Increased spending, more doctors, nurses, and health workers, and collaboration between the finance ministry and health/development ministries and other stakeholders is urgently needed — yet each of these goals is undermined by IMF policies.

The study provides recommendations, including that a broader array of possible alternative macroeconomic policy options be considered by a wider group of public stakeholders, and that such consideration be undertaken in a process that is more participatory, transparent, and accountable.

These reports are intended to contribute to the ongoing discussions about the impact of macroeconomic policies on national spending and consequently on health spending, and how such policies impact the international efforts to fight HIV/AIDS, tuberculosis (TB) and other major diseases.

The governments of Kenya, Tanzania, and Zambia have for decades shaped their macroeconomic policies through programs with the International Monetary Fund (IMF) and World Bank. In order to access loans from the World Bank and IMF, and aid from donor governments, such developing countries must have an IMF program in place. Through the periodic awarding of these loan programs, the IMF "signals" to other aid donors whether a country has the "right" macroeconomic policies and is "ready" to receive aid. This is known as the IMF's "signaling effect," and it provides the IMF a great deal of influence in determining the extent to which low-income countries can access external resources critical for development.

The IMF's macroeconomic policies are often blamed for health worker shortages in many countries, which is now considered a primary impediment to the success of efforts to control HIV/AIDS and TB and to achieve the health-related MDGs. While the IMF counters these claims by arguing that the formulation and implementation of macroeconomic policies are the responsibility of the government, health policy makers point out that the budget ceiling set jointly by the IMF and the Ministry of Finance (MoF) is a main cause of government failure to invest in health over time. They further argue that macroeconomic targets and conditions are set in a non-transparent and undemocratic manner and that the process sidelines Ministry of Health staff and other stakeholders while decisions are made without an informed discussion of alternative scenarios and their trade-offs.

Recent studies have revealed that restrictive fiscal and monetary policies implemented via IMF programs can impede the response to HIV/AIDS, TB, and other major health emergencies in Africa. Further, the Center for Global Development argues that IMF inflation targets are quite conservative and can limit options for pursuing more expansionary but still viable policy options. The IMF, however, argues to the contrary. It states that it doesn't limit health care spending and that the ability of governments to spend is limited by the country's availability of resources. It further contends that if government spending exceeds a country's available resources, this will have destabilizing consequences on the economy. The IMF also believes that underperforming economies in developing countries can improve if there is more fiscal discipline and macroeconomic stability.

With an eye toward reducing fiscal deficits, inflation and other quantitative targets and policy reforms, the IMF promotes a particular package of economic policies with countries receiving IMF financing. It is argued that specific targets become formal or informal loan conditions, which translate directly into setting the parameters for national budgets; they inform budget and wage bill ceilings and can ultimately restrict health spending, thus limiting countries' responses to HIV/AIDS and TB. This study examines the nature of IMF fiscal and monetary policies and their impact on the sizes of the overall national budgets in Zambia, Kenya, and Tanzania, and explores how such policies have impacted the ability of the governments to invest in health and thereby address the co-epidemic of HIV/AIDS and TB.

Key Findings

This study involved a comprehensive review of relevant documents and key interviews to provide an examination of the effect of IMF policies on the capacity to address the HIV/AIDS and TB crises in Zambia, Kenya and Tanzania. Based on the study findings in the three countries, it can be concluded that the IMF policies have been restrictive in terms of fiscal space available to the governments. This in turn has led to the inability of the governments to effectively implement and scale up health interventions, including scaling up HIV/AIDS and TB interventions. Key findings are laid out below.

"IMF programs constrain spending while neglecting other options, while the IMF lacks strong empirical justification for some of its assumptions."

IMF Fiscal and Monetary Policies are Overly Restrictive

The study finds that fiscal and monetary policy targets in the IMF macroeconomic framework are overly restrictive and constrain the size of the recipient government's national budget at unnecessarily low levels. The IMF macroeconomic programs include the same key features in all three countries examined: a reduction in the fiscal deficit and enhanced monetary policy discipline (though recently the IMF has allowed for some room for stimulus in Tanzania's Policy Support Instrument (PSI)); liberalization of external and internal markets; privatization of state-owned enterprises and public divestiture from non-strategic enterprises; and improved government management through reduction of the size of the civil service and reorganizing key ministries. Most of the fiscal policy measures have centered on reduction of budget deficits through reduced domestic borrowing, maintaining low inflation, and increasing foreign reserves.

The secondary consequences are that all of the sector budgets, such as health, also suffer unnecessarily smaller budgets, and over many years. By targeting very low inflation (in the mid single digits) and very low budget deficits (typically around 3 percent of GDP or less), requirements to increase high levels of foreign currency reserves, and limiting the level of access to domestic credit and other policies, the IMF programs constrain spending while neglecting other options for increased spending. Several underlying assumptions informing these targets have been questioned and are being reconsidered, and the IMF lacks strong empirical justification for some of its assumptions. By promoting policies that are unnecessarily restrictive, the IMF prevents countries from being able to generate the increased resources needed to pursue the MDGs and achieve other national health goals.

IMF Macroeconomic Framework Is Designed For Stabilization, Not for "Scaling Up"

The study also finds that the IMF macroeconomic framework is primarily concerned with maintaining a narrow definition of macroeconomic "stability" and is not designed to allow for sufficient "scaling up" of public investment and spending, and is therefore at odds with stated development goals. While stability is critical in any economy, policies that are pre-occupied with maintaining stability can hamper economic growth and reduce options for reducing poverty. If countries were free to explore and pursue more flexible (i.e., "expansionary") macroeconomic policies, many could potentially generate higher investment and spending for critical development areas.

Overly-Restrictive IMF Policies Weaken Health Systems

The study finds that chronic under-financing of public investment as a percent of GDP, under-funding of health budgets, and specific restrictions on wages for public workers have collectively weakened the public health system and undermined the ability of all three countries to address HIV/AIDS and TB, grow and maintain an adequate cadre of health workers, and scale up spending to levels needed to achieve the MDGs.

IMF Strongly Influences Policy Decisions In a Closed Process
In all three countries the study has found that the IMF still has great influence when it comes to macroeconomic policy formulation, including the setting of the macroeconomic framework and annual sector budget ceilings. Evidence from the three country studies has shown that the IMF still has a strong influence in the formulation of fiscal and monetary policies by the leverage it can exercise regarding the use of its powerful "signaling effect" to other bilateral and multilateral creditors and aid donors before giving any assistance to a borrower. It was communicated through key informant interviews that the IMF is the primary player in formulating macroeconomic policies with the finance ministries, acting as a facilitator and the other stakeholders simply consenting or later authenticating what had been decided. Other stakeholders have a minimal role to play in policy formulation. While the process of formulation and implementation of national budgets has become more transparent, the process of determining fiscal and monetary policy targets is still not transparent. The process lacks any meaningful inclusion, transparency, and accountability. The formulation of the macroeconomic policy framework is a closed activity, and the role of other stakeholders including parliamentarians is very limited.

> **"If countries were free to explore more flexible macroeconomic policies, many could potentially generate higher investment and spending for critical development areas."**

Recommendations

Broaden the Number of Assessments of Macroeconomic Policies Beyond the IMF
Major aid donors should no longer only look to the IMF's assessment of countries' macroeconomic policies before giving aid to a country, but instead should consider an array of assessments by different actors. Many of the underlying assumptions of the IMF macroeconomic framework are in need of broader reconsideration.

Open Up Macroeconomic Policy Making to Consider More Expansionary Policy Alternatives
The IMF and other donors should work with borrowing governments, universities, and research institutes to facilitate the exploration of an array of more expansionary fiscal and monetary policy options and scenarios geared towards stimulating the productive sectors of the economy and building the future revenue base in countries. This would enable countries to generate more of their own resources over time, reduce their aid dependency, and enable the mobilizing of new resources for health and human development.

Enable Governments to Invest and Spend More on Health
The IMF and borrowing governments should work with other donors, domestic and international banks, to explore more flexible financing mechanisms (involving loan guarantees and subsidized credit) to accommodate higher levels of government domestic deficit financing on more favorable and sustainable terms to allow for significant increases in public investment and current expenditure. More affordable and sustainable domestic borrowing arrangements could also enable countries to use countercyclical and more expansionary policies to better withstand the global economic recession.

Ensure ODA Is Spent as Intended
The IMF and other major donors should officially change their longstanding practices and begin to allow borrowing governments the freedom to explore, consider, and choose more expansionary fiscal policy in the use of external assistance. The current practice, which can divert large portions of foreign assistance into building foreign reserves, should be replaced by a more flexible mechanism that allows for greater aid spending domestically as intended. This would give recipient governments more space to spend aid to upgrade the health system's infrastructure, expand human resources, review ART policy and guidelines, and scale up ART provision and improve service delivery and quality, thereby improving health outcomes.

Open Up National Macroeconomic Policy Making to More Public Stakeholders
Governments and civil society should engage with a wider spectrum of stakeholders in the formulation and review of IMF program policies, particularly inclusive of other government ministries

and departments apart from Finance, as well as key parliamentary, labor, university and civil society representatives and the domestic media.

More transparent and participatory civic engagement should allow for wider input into an exploration of various macroeconomic policy options and should happen much earlier in the process before macroeconomic policies and quantitative targets are set. This would broaden the consultative process from all key stakeholders, make the policy process more transparent, and ensure accountability and that a wide array of possible alternative policy options was considered.

> **"The process of determining fiscal and monetary policy targets is still not transparent."**

Civil Society Should Engage the Budget Process Sooner

While there are a number of CSOs that advocate for increasing fiscal space for various areas, there is a need for health advocates to work with economists and other stakeholders to engage much more effectively in the initial phases of macroeconomic policy making (including consideration of alternatives) as well as in the later budget-making processes.

Notes

The study was coordinated by the Centre for Economic Governance and AIDS in Africa (CEGAA) and RESULTS Educational Fund (REF).

To download the complete studies, visit www.cegaa.org or www.results.org

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