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Unhealthy conditions:
IMF loan conditionality and its impact on health financing

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The International Monetary Fund (IMF) practice of attaching policy conditions to its loans for crisis-hit countries continues to trigger outrage and protest. This report investigates the conditions attached to the IMF loans for 26 country programmes that were approved in 2016 and 2017. In at least 20 of those countries, people have gone on strike or taken to the streets to protest against government cutbacks, the rising cost of living, tax restructuring and wage bill reforms pushed by IMF conditionality.

They have good reasons to complain. The fact that the IMF imposes reforms undermines sovereignty, democratic decision-making and ownership for reforms in affected countries. The type of reforms that the IMF imposes through programme conditionality affects governments' ability to provide public services, their capacity to fulfil their human rights obligations towards citizens, and ultimately impacts on people's living conditions.

This new Eurodad study on IMF conditionality assesses first how intrusive IMF programmes are. We took a thorough look at the IMF's conditionality databases, as well as at relevant programme documents, in order to assess how many conditions the IMF is actually imposing. We counted the conditions for loans approved in 2016/17 and compared the findings with our previous study that covered IMF programmes approved in 2011 to 2013.

We found that **the number of IMF conditions is increasing**. This finding stands in stark contrast to IMF's own stated intentions of streamlining conditionality, and focusing on macro-critical conditionality.

- **The average number of structural policy conditions per loan** is 26.8 conditions for 26 countries, including those in reviews. The programmes approved in 2011 to 2013 had only 19.5 conditions per loan. In addition, this research also counted quantitative conditionalities, which previous Eurodad research did not. These accounted for, on average, an additional 8.7 quantitative conditions per programme.
- **Conditionality can significantly increase after a programme has been approved,** due to conditionalities added during reviews. Even countries that start with modest conditionality requirements can be confronted with a high conditionality burden in less than two years following loan approval, caused by 'conditionality escalation'.
- **The IMF is increasingly using 'hidden' forms of conditionality**. Besides the explicit conditionality that appears in databases and annexes to loan documents, the IMF bundles conditionality. Policy measures embedded in the narrative of IMF programme documents are *de facto* conditionality even though they are not explicitly so.
- **The largest IMF facilities in terms of loan volume continue to have a large number of conditions attached.** The two main types of IMF programme – Extended Fund Facility and Stand-By Agreement – account for 83 per cent of the total value and have an average of 30.3 conditions per loan.

Looking at the type of conditions, the study finds that the IMF programmes continue to be pro-cyclical and oblige borrowers to implement austerity: **23 out of 26 programmes are conditional on fiscal consolidation.** The majority of borrower countries are forced to restrict their spending and/or increase their taxes as a result of the loans, contradicting IMF claims that its programmes do not emphasise fiscal contraction. Shrinking fiscal space constrains the ability of governments to deliver on their development commitments and human rights obligations.

Comparing cases over time, we found that the majority of countries in our 2016/2017 sample were repeat borrowers from the IMF. This suggest that **programme conditionality has in most cases been ineffective, perhaps even counter-productive, when it comes to restoring long-term debt sustainability**. From this, we can conclude that IMF programme design is based on overly optimistic views on debt sustainability. Most of the countries that faced payment difficulties would have been better off restructuring their debts in order to create fiscal space, instead of requesting IMF bailout loans that came with harsh austerity conditions attached.

In a second step, this research identified knock-on effects of IMF conditionalities on health system financing and access to health services. The adjustment measures potentially directly affecting healthcare are those mandating budget cuts and public sector employment reductions.

Budget constraints as a consequence of loan conditionality risk compromising a country's capacity to scale up public investment to provide essential health services, while public employment reductions have a heavy impact on the health sector and the enjoyment of the rights to health.

Box 1: Methodology for this report

Eurodad examined all IMF loans with structural and quantitative conditionality approved in 2016 and 2017. In total, this represented 26 loans. We have counted the conditions, and in doing so we have unbundled the structural conditions that had bundled more than one policy action into one conditionality.

Quantitative conditions are quantifiable macro-economic targets to measure progress towards programme objectives on either monetary or fiscal policy areas – for instance, the level of fiscal deficit a country is allowed to have or the level of domestic credit allowed.

Structural conditions tie IMF programmes to institutional and legislative policy reforms within countries. They include, for example, fiscal reform, monetary reform, reform of state-owned enterprises, etc.

We also considered the programme reviews in order to identify additional conditionality that has been imposed after the programme started. In total these were 32 reviews. As most of the programmes are still ongoing and future reviews may add additional conditions, the full extent of conditionality can only be analysed at their completion.

Eurodad's research found:

- In **the absence of debt relief, countries struggle to finance health services**; debt service costs as a share of the total budget are higher than health spending in eight of the countries studied. Rapidly growing debt service costs threaten to crowd out health spending.
- In many countries, for instance Chad and Gabon, **austerity measures have sparked cuts in the health sector**, which has had a grave impact on health service delivery and health personnel. This has reduced access to health services for the population as out-of-pocket payments have increased.
- Long periods of **austerity risk causing protracted underinvestment in social services**. For instance, in Guinea and Sierra Leona – which are both emerging from crippling health crises brought on by the Ebola epidemic – the current programmes call for wage bill freezes or reductions.
- All low-income countries face challenges in terms of raising sufficient resources for health systems to reach the essential requirements for universal health coverage (UHC). However, the **social spending floors** that are part of IMF programmes, and that are supposed to shield vulnerable groups, **are at levels below what is needed to guarantee basic healthcare.**

Key Findings

The number of loan conditions is an important indicator of the extent of IMF influence over a borrowing country's economic policies. This research found that the number of conditions per loan is on the increase, despite the IMF's stated objective of streamlining conditionality.

Overall we have counted 227 quantitative conditions over 26 programmes – or 8.7 per programme. Most quantitative conditions were in the area of fiscal policy.

For structural conditionality, we found a total of 26.8 structural conditions per programme on average after unbundling, composed of 17.9 (466 conditions) structural conditions on average upon programme approval and 7.3 per review on average (232 conditions). This shows that **conditions added during programme reviews increase the overall conditionality burden of the recipient country substantially**. For instance, the Central African Republic started out with eight structural conditions at the time of programme approval. However, three subsequent reviews have added another 22 conditions.

In addition, we found that the proposed policy measures described in the programme documents add to the reform burden of loan recipient countries. For instance, 21 countries plan to implement wage bill reform as part of programme policies, while only seven countries have wage bill reforms listed in structural conditionality.

Table 1: **Distribution of structural conditionality per programme unbundled before and after reviews**

Source: Calculations based on Monitoring of Fund Arrangements MONA database

Facility	Size facility of total (in % of lending)	Average quantitative conditions / programme	Average structural conditions / programme before reviews	Average structural conditions/ programme after review
ECF (11)	8 %	8.7	15.3	23.2
EFF (8)	60 %	8.3	22.5	30.5
ECF-EFF (2)	3 %	9	18	37
SBA (3)	23 %	9.7	18.3	29.7
SCF (1)	1 %	10	17	22
SBA-SCF (1)	5 %	8	10	14
Total (26)	**100 %**	**8.7**	**17.9**	**26.8**

Two particular qualitative findings from our analysis of IMF loan conditionality should be highlighted. The first is that IMF programmes are overall ineffective in restoring debt sustainability in the long term. The majority of countries in the sample are repeat borrowers: 24 out of 26 countries were involved in another IMF programme in the previous 10 years.

Of these, 12 had another programme during the previous three years. These findings suggest that the IMF lends to countries with protracted sovereign insolvency, rather than a temporary liquidity problem, reflecting that its loans prop up unsustainable debt.

The second is that they continue to be pro-cyclical, meaning that they push further fiscal cuts in times of crises, when countries actually need fiscal stimulus to support their economic recovery. Eurodad found that 23 out of 26 programmes explicitly state fiscal consolidation in the programme objectives, policies and strategies. Fiscal austerity has been found to undermine economic activity and development objectives as well as human rights. Occasionally, the IMF itself admits that its conditionality has done more harm than good. In the case of Greece, the IMF issued a famous *mea culpa*, as programme designers had underestimated the 'fiscal multipliers' of budget cuts – of conditionality-imposed austerity – on the economy, which triggered a deep recession.

Conditionality & health services

There are many pathways through which IMF conditionalities impact on health systems and access to health services – in particular, debt service payments, fiscal deficit reduction and limitations to public sector employment. Loan conditionality can reduce fiscal space in a way that compromises a government's ability to scale up public investment for providing the essential health services needed to ensure the enjoyment of the right to health.

The prioritisation of **debt service payments** risks absorbing essential funding for health services. In the absence of debt relief, countries may well struggle to finance health services as well as other social services. Eurodad found that **debt servicing crowded out health spending in eight of the countries studied**.

Our research found that the majority of countries are likely to restrict their spending or raise taxes to comply with **fiscal deficit targets**. Overall budget cuts can have knock-on effects on health budgets through **spending cuts or reduced public sector employment**, which – in the absence of sufficient development aid – risks increasing reliance on out-of-pocket payments for health services.

Table 2: Domestic general government health expenditure and debt service as share of general government expenditure in 2015

	Health share (%) of government expenditure	Debt service share (%) of government expenditure
Afghanistan	2.11	0.46
Benin	3.23	3.23
Bosnia and Herzegovina	14.80	5.61
Cameroon	3.30	4.87
Central African Republic	4.08	1.44
Chad	6.26	1.92
Côte d'Ivoire	4.97	5.19
Egypt	3.97	3.21
Gabon	7.04	12.20
Georgia	10.48	12.11
Guinea	2.70	3.54
Jamaica	12.81	29.22
Jordan	12.35	16.67
Kenya	6.27	3.57
Madagascar	15.61	8.04
Moldova	12.21	2.25
Mongolia	6.00	2.00
Niger	4.56	3.36
Rwanda	6.20	4.69
Sierra Leone	7.91	2.53
Sri Lanka	8.00	14.94
Togo	6.05	3.39
Tunisia	13.17	12.76

Source: Eurodad Calculations

Health spending > Debt service

Health spending < Debt service

Yellow: Health spending = Debt service

Box 2: Gabon

In Gabon, a new package of austerity measures was announced shortly after an IMF Review Mission to the country, which stated that programme performance was weak and called for "corrective action". The statement also announced that a package of measures would be presented to the Executive Board by the end of July 2018. The IMF programme calls for reducing the overall fiscal deficit to 4.6 per cent of GDP in 2017 from 6.6 per cent in 2016, which has had a bearing on Gabon's health budget.

The new reform measures call for reducing public wages, including doctor's salaries and paying them in cash vouchers, leading the doctors' syndicate to consider an unlimited strike. In addition, payment arrears by the Public Health Insurance Scheme has compromised service delivery in the health sector. Until these arrears are paid by the government, public hospitals are no longer accepting the insured under the national health insurance scheme. This has led to dramatic scenes in hospitals as sick people now have to pay cash in order to be cared for.

Box 3: Austerity affecting healthcare budgets

Other countries we looked at also experienced strikes by health personnel calling for improvements in salaries, working conditions and equipment during the IMF programme period. This was the case in Benin, Chad, Jamaica, Kenya, Mauritania, Togo and Tunisia. Apart from Benin, all of the country programmes included dispositions on containing the wage bill. Only Chad's programme included safeguards for priority sectors, which were insufficient to shield Chadian health personnel from the consequences of austerity. In Suriname medical personnel and hospital directors sounded alarm bells over shortages in equipment and medication due to underfunding of hospitals.

There is an urgent need to drive up investment in health in general to address basic health needs and in health personnel to overcome staff shortages, which are most pronounced in developing countries. An estimated additional $274 billion per year is needed to reach Sustainable Development Goal (SDG) health targets by 2030.

The IMF claims that the effects of fiscal adjustment for vulnerable groups will be cushioned by social spending floors. However, these appear too low to fund accessible health services for all and guarantee the right to health. A review of the level of social spending floors for low-income countries in our sample found that all 10 LICs have spending floors that are lower than the $86 per capita target necessary for guaranteeing a minimum level of key health services for their population, merely one dimension of social spending.

Table 3: Social spending floors ($) for selected sample countries

Country	Social spending ($) per capita
Afghanistan	13.9
Benin	25.3
Central African Republic	1.9
Chad	24.3
Guinea	1.2
Madagascar	2.7
Niger	40.1
Rwanda	31.5
Sierra Leone	8.0
Togo	49.5

Source: Calculations based on converting the amounts depicted in IMF documents from local currency to US dollars based on conversion rates on 14 September 2018. For the programmes concluded in 2016, we used the spending floor established for December 2016. For the programmes concluded in 2017, we used the spending floor established for December 2017. We used population figures from the World Bank.

Conclusions

The number of IMF conditions – including those promoting austerity – have increased in recent years. This is in stark contrast to IMF claims that they have been 'streamlined'. IMF programmes are becoming ever more intrusive as the number of conditions per programme grows. Economic policies and necessary reforms should be democratically owned. Real democratic ownership should be more than the mere acceptance of a set of economic reforms by a borrowing government in dire economic circumstances. It should be the result of a process involving stakeholders such as parliaments and civil society organisations.

While the IMF claims that its programmes do not focus uniquely on fiscal consolidation, the majority of programmes are geared towards just that: 23 out of 26 programmes**.** However, austerity measures have been found to undermine development objectives and human rights, including the right to health. Nevertheless, the IMF continues to use its influence to promote controversial austerity measures as part of its loan conditionality with potentially severe impacts on the poor and health systems.

The high number of repeat borrowers suggest that lending-with-conditionality by the IMF has been ineffective in terms of restoring debt sustainability in the long term. Heavily indebted countries should therefore give preference to debt restructuring instead of requesting bailout loans from the IMF. Fiscal space gained through debt restructurings can be used to scale up investments in health services.

Recommendations

A fundamental change in approach is needed. This report makes the following recommendations:

- **Creating fiscal space through debt restructuring must be the first option** when countries face a protracted debt problem, instead of lending with conditionality. The IMF's debt sustainability assessments should be complemented with independent Human Rights Impact Assessments (HRIA), in order to assess debt burdens and their implications on countries' abilities to finance internationally agreed development goals and to fulfil their human rights obligations. These HRIA, conducted before approving loans and designing programmes, should guide the IMF and its Member States' policy choice towards debt restructuring, or borrowing from the IMF, or a combination of both.
- **The IMF should respect democratic ownership and stop applying conditions to loans other than the repayment of the loan on the terms agreed.** In this respect, the IMF should extend the use of instruments such as the Flexible Credit Line and Precautionary and Liquidity Line, and remove the remaining *ex ante* conditionality attached to them. Requiring no conditionality other than the repayment of the loans on the terms agreed is a far better model to deal with temporary balance of payment and liquidity needs.

This briefing is based on a longer report which can be found at: **www.eurodad.org/unhealthyconditions**