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Unhealthy conditions

IMF loan conditionality and its impact on health financing

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Executive summary and key findings

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 unsustainable 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.

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.**

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.

1. Introduction to IMF loan conditionality

1.1. Why lend with conditionality?

The rationale behind IMF loan conditionality is that the IMF will only disburse loans to countries if they reform their policies. The type of reforms to be implemented and macro-economic targets to be reached are set out in the economic policy conditions attached to loans. According to the IMF, such conditions are required for a recipient country to restore macro-economic stability, to set the stage for economic growth and to provide guarantees to repay the Fund.[1]

However, watchdogs including Eurodad have pointed out that these conditions have been controversial, inadequate and go beyond the scope of IMF core competencies. The practice that the IMF imposes conditionality on borrower countries undermines sovereignty, democratic decision-making and ownership over reforms. The type of conditions that the IMF imposes have increased poverty and inequality, and reduced states' capacities to fulfil their human rights obligations.

Due to the policy conditions attached, lending from the IMF has always been politically controversial. Most recently, just in 2018, IMF conditionalities continued to make headlines around the world, including for instance the refusal of IMF assistance by Turkey,[2] the controversy surrounding a possible IMF bailout loan for Pakistan[3] and the continued protests against the IMF programme in Argentina, Haiti, Jordan, Egypt, Sri Lanka and Tunisia, to name a few.[4]

Developing countries in particular have been looking for alternatives to IMF loans due to the mounting discontent with IMF's conditionality, and the IMF's handling of financial crises in Asia in the late 1990s and Argentina in the early 2000s. They have established several regional financing arrangements (RFAs), such as the Chang Mai Initiative in Asia and the Latin American Reserve Fund (FLAR). Or they have built up expensive currency reserves as a self-insurance mechanism to avoid dependency on IMF loans.[5]

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.[6] The IMF programme did not just have a negative impact on the Greek economy and the well-being of Greek citizens, these loan conditions had a negative impact on Greece's debt repayment capacity and caused the failure of the programme.[7]

1.2. The evolution of conditionality

The scope of IMF conditionality has gradually increased over the years. Until the 1980s, the Fund focused primarily on macro-economic criteria such as budget reduction, restrictive monetary policy and exchange rate management. With the arrival of neoliberal structural adjustment programmes, the IMF added more structural conditionalities in areas such as privatisation, liberalisation and economic deregulation. Later on, policy areas such as social policy, labour reforms and good governance were also included.[8] Most recently the IMF has started including policy advice on gender and economic inequality as well.[9]

Criticism from both civil society organisations (CSOs) and borrowing governments[10] since the 1990s about the extent and the intrusiveness of loan conditionality has led to a series of reviews with the objective of streamlining conditionality. Based on the reviews (see Table 1), the IMF has initiated reforms in its lending and programme conditionality.

Table 1: Important milestones in IMF reviews of conditionality

2000	Recognition of need for clarity on the boundaries of conditionality[11]
2002	Guidelines for conditionality revised[12]
2005	Review of guidelines[13]/Independent Evaluation Office (IEO) Evaluation of Structural Conditionality[14]
2007	IEO Evaluation of Structural Conditionality[15]
2009	Review of guidance note for guidelines[16]
2011	Review of Conditionality[17]
2012	Executive Board discussions on Review of Guidelines[18]
2014	Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines[19]
2018	IEO Evaluation Update of Structural Conditionality/IMF Review of Conditionality[20]

Source: IMF Fact sheet on conditionality[21]

The first IMF conditionality guidelines were adopted in 2002.[22] They stated that the IMF would apply conditionality parsimoniously,[23] limited to conditions that are:

- critical to achieving programme goals
- focused on areas of core competence and expertise.

In a new reform adopted in 2009, the IMF committed to a more flexible approach to structural conditionality moving from strict performance-based assessments for the disbursement of loans to review-based assessments. Structural performance criteria (SPC) were replaced by structural benchmarks. SPC required a formal waiver by the Executive Board in case of non-compliance. Structural Benchmarks (SB) do not. They are considered as crucial indicators to measure the programme performance of a loan recipient. Reviews are to be conducted more regularly and all structural conditions will be assessed in a review.[24]

The IMF's own *Review of Conditionality* in 2011 asserted that the guidelines were well implemented. Conditionality was "streamlined, even-handed and tailored to country needs".[25] It has become more parsimonious and macro-critical – meaning that conditions are deemed critical to achieving programme objectives. Furthermore, conditions are to be well-focused on the core areas of the IMF's competence.[26]

However, Eurodad research conducted in 2008[27] and 2014[28] found that reform of IMF conditionality was moving at a slow pace and even backtracked on some issues. The research concluded that:

- The number of conditions per loan had actually increased since the IMF's review of conditionality, and it had increased further between 2008 and 2014.
- There was a continuous increase of loan conditions in controversial economic areas.

1.3. IMF facilities and loan conditionality

IMF loans are provided through many different lending facilities; the extent to which conditions are attached to these different loans varies. The types of facilities are summarised in Table 2.

IMF lending surged after the breakout of the global financial crisis in 2008, when there was an increased demand from new and old borrowers.[29] In 2009, the G20 called for a tripling of IMF funds to enable a response to crises in larger economies.[30] More recently, in 2016, the IMF's financial capacity was further strengthened when the 14th quota review was implemented, which doubled the IMF quota resources.[31]

Two new lending facilities with limited conditionality were introduced during the financial crisis: the Flexible Credit Line (FCL) and the Precautionary Credit Line (PCL), which was replaced by the Precautionary and Liquidity Line (PLL) in 2011.[32] The FCL and PLL facilities come with limited conditionality.

However, only countries that have solid 'policy track records' are eligible for these facilities and it is at the IMF's discretion to decide which policy track records or economic fundamentals qualify as 'solid'. In practice, this can be considered a form of exercising (political) bias *ex ante*, instead of explicit conditionality attached to a loan. An IMF review in 2014 indicated that "a membership survey points to countries' desire for more transparency and predictability in qualification"[33] for these facilities. An IMF Policy Paper from 2017 aimed to respond to these concerns by improving the qualification framework for PLL and FCL in order to improve transparency and predictability.[34] However, to date, very few countries have made use of these instruments and accusations of the IMF lacking 'even-handedness' are still common.[35]

In addition, the facilities for emergency lending, Rapid Financing Instrument (RFI) and Rapid Credit Facility (RCF), were designed to assist countries with urgent balance of payment problems arising from instances of conflicts, natural disasters and commodity price shocks. Both instruments may require a form of *ex ante* conditionality through prior actions.[36] So far, only three countries have made use of these instruments – The Gambia, Haiti and Ecuador.

While it is a positive step that new instruments with more limited conditionality have been developed, their use in lending could be improved, as could clarity on qualification criteria. To examine the actual conditionality associated with these facilities, and the even-handedness of their application, warrants specific research, which is beyond the scope of the present study. Despite the option to use facilities with limited economic policy conditionality, the majority of IMF lending still comes with a full economic and financial adjustment programme that has conditionalities attached.

Table 2: IMF facilities

Programme/Concessionality	Country type	Description	Used during study period	Included in research
The Extended Credit Facility (ECF)[37] / Concessional	LIC	Main tool for medium-term lending (3-4 years) to Low Income Countries (LICs). Zero interest rate until end-2018, 5.5 year grace period and maturity of 10 years.	Afghanistan, Benin, Cameroon, Central African Republic, Chad, Côte d'Ivoire (combined ECF-EFF), Guinea, Madagascar, Mauritania, Moldova (combined ECF-EFF), Niger, Sierra Leone, Togo	Yes
The Extended Fund Facility (EFF)[38] / Not Concessional	All	Medium-term lending (3-4 years), typically longer than SBAs. Repayment due within 4.5-10 years.	Bosnia and Herzegovina, Côte d'Ivoire (combined ECF-EFF), Egypt, Gabon, Georgia, Jordan, Moldova (combined ECF-EFF), Mongolia, Sri Lanka, Tunisia	Yes
The Standby Credit Facility (SCF)[39] / Concessional	LIC	Short-term lending (1-2 years). Can be used on a precautionary basis. Currently zero interest rate, grace period 4 years and final maturity 8 years.	Kenya (Combined SCF-SBA), Rwanda	Yes
Stand-By Arrangements (SBA)[40] / Not Concessional	All	Short-term lending (1-2 years, no more than 3 years). Can be used on a precautionary basis. Repayment due within 3.5-5 years.	Iraq, Jamaica, Kenya (Combined SCF-SBA), Suriname	Yes
Policy Support Instrument[41] (PSI)	LIC	Fund programme without borrowing.	Senegal, Rwanda, Tanzania, Uganda	No – No lending
Rapid Credit Facility (RCF)[42] / Not Concessional	LIC	Emergency lending. 5.5 year grace period and maturity of 10 years.	The Gambia,[43] Haiti[44]	No – limited conditionality
Rapid Financing Instrument[45] (RFI) Not Concessional	All	Emergency lending. Same terms SBA. Repayment 3.25-5 years.	Ecuador[46]	No – limited conditionality
Flexible Credit Line[47] (FCL) / Not Concessional	All	Countries that met qualification criteria "strong performers". Upfront disbursement. If drawn repayment due within 3.25-5 years. Same terms SBA PLL.	Colombia, Mexico, Poland (ended in 2017)	No – limited conditionality
Precautionary and Liquidity Line (PLL)[48] / Not Concessional	All	Countries with "sound policies". Limited conditionality. Duration 6 months or 1-2 years.	Morocco, Former Yugoslav Republic of Macedonia	No – limited conditionality

Source: Based on description by IMF[49]

1.4. IMF conditionality and democratic ownership

The IMF claims[50] it promotes national ownership of loan programmes by borrowing governments. However, this has been questioned by CSOs and the IMF's own arm's length Independent Evaluation Office (IEO). The IMF's 2011 *Review of Conditionality* did recognise the need to strengthen ownership.[51]

An IMF loan is sealed by a Letter of Intent, which is usually accompanied by a Memorandum of Economic and Financial Policies (MEFP) that sets out the loan's conditionality, macro-economic targets and envisaged policy measures. In theory, these documents are composed and sent out by the government of the borrowing country. However, in practice the IMF is heavily involved in the drafting process of programme documents and the design of conditionality.[52]

In fact the IEO found in 2007 that 84 per cent of IMF staff admitted that the first draft of an MEFP was prepared by IMF staff. To date, there is no evidence that this has changed.[53] A new IEO report released in 2018 noted that country ownership remained strained. The IMF Executive Directors[54] (EDs) interviewed for the report – in particular those representing borrowing countries – pointed out that the change from Structural Performance Criteria to Structural Benchmarks did not bring about enhanced country ownership. According to the EDs: "country authorities' perception was that negotiation practices for structural benchmarks are not very different from those that were in place for structural performance criteria and that the distinction between these two modes of conditionality was not generally recognised, implying that country ownership may not have been enhanced by this change".[55]

CSOs have traditionally argued that ownership should be more than the mere acceptance of a set of IMF-designed economic reforms by a borrowing government in dire economic circumstances. Moreover, democratic ownership is more than country ownership. It is the result of an inclusive process involving stakeholders such as national parliaments, trade unions and local CSOs. A possible way forward would be to grant access to key meetings for affected stakeholders and to disseminate crucial information such as draft documents in a timely fashion to key stakeholders allowing for informed participation in decision-making.[56]

Promoting measures that limit the budgetary space of countries has a bearing on the functioning of democracies. As the UN Special Rapporteur states in its report on the IMF: "[...] entrenching deficit caps, debt limits and expenditure ceilings all reduce the scope for voters to influence a wide array of fundamental economic and social priorities".[57] This was illustrated recently in Jordan where weak ownership amounted to a lack of public support for economic reform. A reform package intended to meet IMF loan conditions spurred days of anti-austerity protests, eventually leading to the resignation of the Prime Minister.[58]

An anonymous Jordanian official told Reuters: "Pushing countries to the extreme regardless of the political environment was not the right thing. The IMF now has to take into consideration Jordan's capacity in what it can do."[59]

Overall, it is evident that the policy reforms imposed by IMF conditionality are poorly supported in the sample of countries investigated for this research: during the IMF programme period, 20 out of 26 countries experienced protests or strikes against austerity measures.[60]

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.

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.

Our data sources include both programme documents and the IMF's conditionality database – the Monitoring of Fund Arrangements (MONA), as downloaded on 27 March 2018. There is no data on the facilities RFI, RCF, FCL and PLL in the MONA database, which was one reason to exclude them from this research (see Table 2 for more details about these different facilities).

A more comprehensive version of this report's methodology, as well as an overview of the bundled conditions, is included on Eurodad's website.

Box 2: Types of IMF conditions

The IMF attaches two different types of conditions to their loans – structural conditions and quantitative conditions. Eurodad examined both types of conditions for this report.

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.

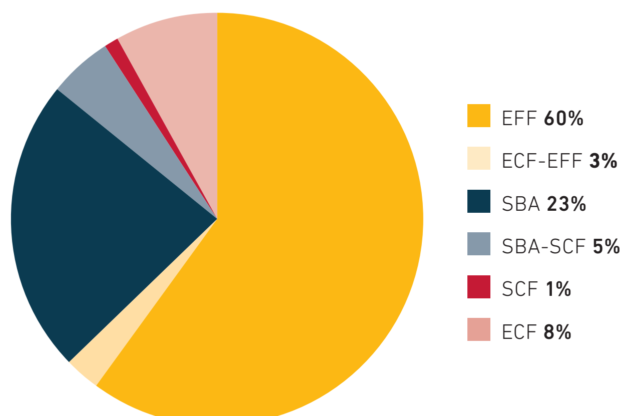
Structural conditions can take two forms:

- *Prior Actions*: These are binding conditions, which have to be implemented before loan approval or completion of a review.
- *Structural Benchmarks* are non-binding. In general, they do not cause programme interruption. They are usually modified or rolled over in case of non-compliance. However, they are deemed critical to assessing programme performance. They are very influential in reviews, which determine the disbursement of subsequent loan tranches.

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. Quantitative conditions can take the form of quantitative performance criteria (QPC) and indicative targets (IT):

- *Quantitative performance criteria* are binding targets and need to be complied with before a review can be completed. In the case of non-implementation, they require a waiver or approved modification from the IMF's Executive Board. In the absence of such a waiver, the review cannot be completed and hence the subsequent loan tranche cannot be disbursed.
- *Indicative targets* are non-binding and can more easily be modified and do not determine the disbursement of subsequent tranches. However, they can strongly influence recipient countries' decisions and are used as a guide to assess the performance of a loan throughout the programme period. Recently, the IMF has also included social spending floors as indicative quantitative targets in certain country programmes by which it aims to protect social spending.

Graph 1: Loan share by facility



2. The quantity of IMF conditions

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. In addition, we found that the proposed policy measures described in the programme documents add to the reform burden of loan recipient countries. The majority of programmes were also geared towards fiscal contraction. Moreover, most countries were repeat borrowers from the IMF, suggesting that conditions were ineffective and failed to restore debt sustainability over the long term.

2.1. Counting conditions

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 – 150 quantitative conditions, of which 89 related to debt management, 32 to budget balance, 18 to revenue and 11 to limiting public spending/investment. 56 quantitative conditions were related to monetary policy and finally 21 country programmes included "social spending floors".

The number of structural conditions per IMF loan approved in 2016-17 increased compared to the loans approved in 2011-2013 that were analysed in earlier Eurodad research. We counted both the conditionality at programme approval as well as the conditionality of later reviews to account for the cumulative effect of conditionality over time. We found 654 structural conditions over 26 programmes and 32 associated reviews or **25.2** cumulative conditions per programme on average; and after unbundling, we found **26.8** cumulative conditions per programme on average. **This is a marked increase compared to previous Eurodad research**, which found 19.5 per programme[61] in 2014; and 13.7 per programme in 2005-07.[62] The current report considered more reviews than the previous report Conditionally Yours, which partly explains the higher overall number of structural conditionalities.

After unbundling the conditions, we find a total of 26.8 structural conditions per programme on average (698 conditions), composed of 17.9 structural conditions on average upon programme approval (466 conditions) 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**.

Overall the distribution of quantitative conditionality over the different facilities is roughly the same, hovering between a minimum of eight and a maximum of ten quantitative conditions on average per programme. However, there are some differences for structural conditionality over the different facilities.

The blended facility ECF-EFF has the highest average structural loan conditionality including reviews; the average more than doubled after reviews (18 conditions per programme on average before review and 37 after reviews). However, these results are heavily shaped by a single programme. The one in Moldova accounts for much of the conditionality: 55 structural conditions including reviews.

Table 3: **Distribution of structural conditionality per programme unbundled before and after reviews**

Source: Calculations based on 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**

The largest IMF facilities in terms of loan volume continue to have significant loan conditionality. In this sample, the EFF and SBA – both non-concessional facilities – represent the largest volume of IMF lending, representing roughly 83 per cent of the total value. Both the EFF and SBA have heavy structural conditionality attached: the EFF (22.5 conditions per programme on average before reviews and 30.5 after review) and the SBA (18.3 conditions per programme on average before review and 29.7 after reviews).

Next, compared to previous Eurodad research, structural conditionality for EFF facilities' conditionality per programme was reduced from 35.5 to 30.5 on average per programme. On the other hand, we found significant increases in short-term facilities SBA and SCF, and a high average for the blended ECF-EFF facility.

For the ECF facility we found that the average number of conditions per programme before review was lower: 15.3 compared to 21.5 structural conditions per programme. However, after reviews the average number of conditions per programme was higher: 23.2 compared to 21.5 structural conditions per programme.

Even though reduced conditionalities, in particular for the EFF facility, represents a positive step, we still found an increase in the average number of structural conditions per programme for all facilities combined, which suggests that the overall burden of conditionality is becoming heavier.

Table 4: Average number of structural programme conditions per facility: 2011-2013 and 2016-17

Programme	2011-2013 sample	2016-2017 sample
ECF (11)	21.5	23.2
EFF (8)	35.5	30.5
ECF-EFF (2)	/	37
SBA (3)	9.6	29.7
SCF (1)	8.0	22
SBA-SCF (1)	0	14
Total (26)	**19.5**	**26.8**

Source: Comparison of current sample and sample of Eurodad study, *Conditionally Yours*[63]

Most of the countries with a high conditionality burden are under the EFF programme or the blended ECF-EFF facility. Examples include Moldova (ECF-EFF), with 55 structural conditions after reviews, and Jordan (EFF), which has 40 structural conditions after reviews. IMF documents reveal that the number of conditions in Moldova was inflated due to attempts to reform the banking sector. In Jordan, it was mostly fiscal conditionality that was imposed to reduce debt levels.

Conditions added during various reviews can significantly increase the conditionality burden over a short timespan. Even countries that start with a relatively modest conditionality burden can be confronted with a higher burden in less than two years. 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. Other examples include Afghanistan, Moldova and Tunisia (see Table 5).

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 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.

IMF programmes or debt sustainability: The majority of countries in the sample are repeat borrowers: 24 out of 26 countries were involved in another IMF programme in the previous ten years. Of these, 12 had another programme during the previous three years. We counted the years between the approval date of the current programme in 2016 or 2017 and the last year of a previous arrangement(s).

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. In such cases, debt relief should be the preferred option. The IMF indeed noted that, without any debt relief or restructuring, significant reductions in low-income country (LIC) debt stocks are rare: IMF data identifies only seven such cases since 2000, and in only one of these – Nepal – did fiscal consolidation apparently play an "important contribution to debt reduction".[64] In many cases, IMF lending with conditionality enabled insolvent countries to procrastinate over a sustainable solution to their debt crisis. Instead of solving debt problems, austerity conditionality pushes countries into recession, and recessions reduce their capacity to carry debt burdens even further.

Table 5: Conditionalities per country, unbundled

Country	Arrangement type	Number of quantitative conditionalities per programme	Number of structural conditionalities at programme approval	Number of reviews () and added structural conditionalities
Afghanistan, Islamic Republic of	ECF	12	12	(2) : 22
Benin	ECF	8	16	(1) : 10
Bosnia and Herzegovina	EFF	9	32	
Cameroon	ECF	10	26	(1) : 8
Central African Republic	ECF	7	8	(3) : 20
Chad	ECF	9	10	
Côte d'Ivoire	ECF-EFF	10	7	(2) : 12
Egypt	EFF	8	18	(1) : 9
Gabon	EFF	8	10	(1) : 9
Georgia	EFF	9	16	(1) : 7
Guinea	ECF	8	17	
Iraq	SBA	8	16	(2) : 18
Jamaica	SBA	12	12	(2) : 16
Jordan	EFF	11	33	(1) : 6
Kenya	SBA-SCF	8	10	(1) : 4
Madagascar	ECF	8	14	(2): 17
Mauritania	ECF	7	23	
Moldova	ECF-EFF	8	29	(2): 26
Mongolia	EFF	8	21	(2) : 8
Niger	ECF	10	14	(1) : 6
Rwanda	SCF	10	17	(2) : 5
Sierra Leone	ECF	9	17	
Sri Lanka	EFF	6	24	(3) : 11
Suriname	SBA	9	27	
Togo	ECF	8	11	(1) : 4
Tunisia	EFF	7	26	(1) : 14

Source: IMF Programme documents

IMF programmes and fiscal consolidation: While the IMF claims that its programmes do not focus uniquely on fiscal consolidation (i.e. budget cuts and/or tax hikes), the majority of programmes are geared towards fiscal consolidation. Eurodad found that 23 out of 26 programmes explicitly state fiscal consolidation in the programme objectives, policies and strategies. As a consequence, the majority of countries will have to restrict their spending and/or increase their taxes.

Fiscal austerity has been found to undermine economic activity[65] and development objectives[66] as well as human rights.[67] For instance, austerity can have a negative impact on output and employment, as well as potentially leading to protracted underinvestment in public services. What is more, country programmes that do not explicitly call for fiscal contraction might also include austerity measures. For instance, Guinea's country programme foresees containing the country's wage bill, cutting electricity subsidies and adjusting the petroleum price; the latter recently caused a four-day strike.[68]

3. How conditionality affects financing for health services

Austerity measures can have knock-on effects on health systems and health outcomes. Restrictive loan conditionality can reduce a country's capacity to scale up public investment to provide the essential health services needed to ensure development objectives and the enjoyment of the right to health.

A conceptual framework developed by Oxford researcher Alexander Kentikelenis links policy conditions to health systems and outcomes.[69] The framework identifies three pathways through which adjustment can affect health:

- policies directly impacting health systems
- policies indirectly impacting health systems
- policies affecting social determinants of health, or the social and economic living conditions of people.

An adjustment measure can affect health outcomes in various ways: For instance, wage bill conditionality can both reduce the public sector's health workforce (directly) and can cause unemployment (social determinant). Targeting social spending to specific groups undermines the state's role to provide universal health coverage for its citizens. Regressive taxation reduces the purchasing power of the poor, and thus their ability to pay for health services where these are not publicly provided.

Table 6 gives an overview of fiscal adjustment components imposed by IMF conditionality that can affect health systems and outcomes.

Table 6: Fiscal adjustment components

Selected Components Fiscal Adjustment	
Fiscal space	Budget cuts, wage bill, debt service, consumption taxation
Liberalisation	Subsidy reductions, user fees, trade liberalisation, tariff increases, automatic price mechanisms, custom duties alterations
Privatisation	Privatisation and restructuring of public services and enterprises, altering the public-private mix (PPPs)
Monetary policy	Inflation, interventions referring to reserves and central bank assets, currency intervention
Social policy	Pension reforms, social reforms (including targeting of social spending)

Based on Conceptual Framework of Kentikelenis

These elements can be found in quantitative and structural conditionality, as well as in the policy measures embedded in the IMF loan documents.

All quantitative conditions touch upon one of the components by nature, as they relate to fiscal and monetary policy. These include 150 conditions in total.

There are 255 structural conditions in these components of fiscal adjustment in the 26 programme countries that received IMF loans in 2016-2017. This is an average of 9.8 per country programme. Previous Eurodad research, which looked at a slightly narrower set of policy areas, found 7.6 conditions per programme in 2011-2013. This suggests that IMF conditionality in areas that are likely to affect health service provision continues to increase.

In addition, we found 148 policy measures related to components of fiscal adjustment, which add to the reform burden of the borrowing country.

Table 7: Structural conditions and policy measures per fiscal adjustment component

Policy area	Number of quantitative conditions	Number of structural conditions	Number of policy measures
Fiscal space – general	150	106	41
Fiscal space – regressive taxation	/	30	19
Total fiscal space	150	136	60
State role – liberalisation	/	45	18
State role – privatisation (including public enterprise restructuring)	/	30	10
Total state role	/	75	28
Total monetary policy	56	33	27
Total social policy	21	11	33
Overall	**227**	**255**	**148**

Source: Eurodad analysis of MONA database. The table includes both conditions as agreed upon programme approval as well as those added during reviews (cumulative conditionality).

The types of reforms highlighted below show some of the policy measures that are more often reported in the narrative section than listed as structural conditions.

- **Wage bills**: 21 countries are advised to implement wage bill reform as part of programme policies, and seven countries received a total of 20 structural conditions on public sector wage reform. Interestingly, of the 21 countries implementing wage bill reforms, only seven have explicit safeguards in the programme to protect priority sectors (health, education) from cuts.
- **Targeting social policies:** 15 countries must implement targeted approaches to social policies as part of programme policies; seven country programmes have structural conditions in this area with a total of seven conditions.
- **Consumption taxes:** 17 countries received 30 conditions linked to regressive taxation, while 19 reported extra adjustment measures in the narrative section of their loan documents. Combining these two findings results in 23 countries calling for some type of reform on indirect taxation.

Moreover, even conditions in areas that do not seem to have a direct link to health can affect a country's ability to provide health service to its citizens. For instance, in both Tunisia[70] and Egypt,[71] the IMF programme called for exchange rate liberalisation. As a consequence, both countries underwent a devaluation of their currencies, which in turn led to shortages in the supply of medication due to increased costs. Furthermore, stringent quantitative conditions on fiscal deficit reduction generally lead to belt-tightening austerity measures, which led to cuts in health budgets in countries such as Chad, Gabon and Suriname.

Countries under EFF and SBA programmes in general have more structural conditions in these selected components of fiscal adjustment. From the sample looked at for this report, most conditions in these areas were found in Sri Lanka (20-EFF), Suriname (17-SBA), Tunisia (17-EFF), Bosnia and Herzegovina (17-EFF) and Jordan (17-EFF).

The full extent of knock-on effects in all countries would be an area for further country-specific research. In Chapter 4, we will focus on two components of fiscal adjustment: debt servicing and deficit caps, in particular those affecting wage bills, and we will identify knock-on effects of IMF conditionalities on health systems and access to health services.

Box 3: Fiscal adjustment for the benefit of creditors: the cases of Bosnia and Herzegovina and Jamaica

Jamaica and Bosnia and Herzegovina are two countries where IMF programmes have included particularly tough conditions on the fiscal deficit.

The **Jamaica** programme set a target for the primary surplus at 7 per cent of Gross Domestic Product (GDP). The objective is to pay down public debt and reduce the debt stock to below 60 per cent of GDP at the very fast pace of 7 per cent per year. The primary surplus is the fiscal surplus excluding the interest paid on government debt. The higher the value, the more taxpayers' money is transferred to creditors, instead of being used to finance public services.

The **Bosnia and Herzegovina** programme aims to reduce current spending by 3 per cent of GDP by 2019. The aim is also debt reduction; the target is to reduce the debt stock gradually to below 40 per cent of GDP. In both cases, the IMF programmes put pressure on governments to use public revenue for debt service, instead of financing the provision of public services, including health services. While it is not uncommon that IMF programmes include safeguards to protect public health budgets from spending cuts, the programmes for Jamaica and Bosnia and Herzegovina do not.

The targets set for these countries are extremely ambitious, and surprisingly high as they do not reflect the lessons learned from previous IMF programmes. The IMF learned in Greece how damaging the 'fiscal multipliers' of fiscal cuts can be. Now the IMF is arguing that Greece can sustain a maximum of 1.5 per cent of primary surplus, and that Greece's creditors need to contribute to the economic recovery through additional debt relief.[72]

Box 4: IMF conditions boost regressive taxation

The vast majority of IMF tax conditions refer to consumption taxes. Value Added Tax (VAT) and other taxes on consumption, such as general sales taxes, tend to be considered as regressive, since poorer people spend a larger share of their income on consumption. Such indirect regressive taxes have been found to increase income inequality.[73] This is particularly problematic in low-income countries with high numbers of poor households that struggle to afford the basic services such as food and healthcare.[74]

Given their high presence in the unpaid care economy, women tend to spend more on VAT-sensitive products like food, medicines, clothing, children's healthcare and education. As a result, if a larger proportion of their income goes towards VAT, less can go towards these crucial expenses. In this constellation, without proper safeguards VAT can become, in addition to regressive, gender discriminatory as well.[75,76]

Box 5: IMF policy advice and the right to food

IMF conditions to cut public budgets can have ripple effects on the prices of sensitive product categories such as food. In **Jordan**, to keep the fiscal deficit in check, the government cut bread subsidies, which is expected to lead to price increases of between 60 and 100 per cent.[77]

What is more, we have found explicit proposed measures in IMF programmes that can impact on food. For instance, the IMF programme in **Egypt** calls for better targeted food subsidies, while Iraq will reform its public food distribution system applying the risky Proxy Means Test method. Both in the **Central African Republic (CAR)** and **Cameroon**, custom duties are raised on imported wheat flour and fish, without commensurate support to local food producers to enhance local production and distribution.[78] This is likely to raise food prices on local markets. Finally, **Sierra Leone** plans to lift all duty and Goods and Services Tax (GST) exemptions on imported rice.

Box 6: IMF conditions and targeting social spending

The IMF has a preference for targeting social spending towards sub-groups of the population, as a measure to reduce costs; 15 country programmes included policy measures related to targeting. A recent review by the International Labour Organization (ILO), the South Centre and Columbia University "found that the targeting approach was considered in policy dialogue between the IMF and 68 developing countries".[79]

The review lists many reasons why targeting is not the best approach, particularly in developing countries where a large proportion of the population is living in poverty. These include adding to costs and administrative burden and creating two-tier systems, in addition to leading to under-coverage, meaning many of the most vulnerable may be excluded. For example, the proxy means-testing (PMT) approach, championed by the World Bank,[80] is beset by 'exclusion errors', which can mean that from 50 to 93 per cent of the desired target group do not receive the proper benefits.[81]

Despite these significant risks of targeted approaches, the IMF keeps pushing targeted social programmes through its loan conditionality and policy advice. In **Mongolia**, the initial loan conditionality required targeting the child money programme to the poorest 40 per cent of the population, later expanded to the poorest 60 per cent. At the time of loan approval, Mongolia had a programme of universal child benefits in place, covering roughly 99 per cent of the population.[82]

Universal social protection programmes are also important for gender equality because without them the burden of caring for vulnerable groups such as the young or old is largely borne by women through unpaid care work at home.[83]

Critics note that the IMF's targeting approach undermines global agreements and international law that social protection should be universal – and rights based – available to all as a right, and therefore should not be threatened when IMF programmes mandate reductions in expenditure.[84]

4. Fiscal adjustment and health systems

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. Prioritising debt service payments as part of IMF-mandated fiscal adjustment absorbs crucial resources that could have been invested in health systems in several countries. While no IMF programme in our sample directly called for reform in health systems or specific cuts in health budgets, we have found instances where austerity measures – particularly spending cuts and wage bill contraction – had an impact on health budgets. 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.

4.1. Health financing

4.1.1 Public finance matters for health financing

The crucial functions of a health financing system are revenue mobilisation, pooling of resources and strategic purchasing. For achieving universal healthcare (UHC) and improving equitable access, it not only matters how resources are spent but also how they are raised.[85]

The World Health Organization (WHO) argues that increased reliance on public revenue sources is the crucial source of finance for countries to achieve UHC: "No country has made significant progress towards universal health coverage (UHC) without increasing the extent to which its health system relies on public revenue sources."[86] Austerity affects both the level of public budgets and how they are mobilised, for instance, through greater reliance on regressive forms of taxation.

A WHO report demonstrates that, in terms of resource mobilisation, public financing is the main crucial source of health finance in high and upper-middle income countries. However, in poor countries, LIC and lower and middle-income counties (LMIC), out-of-pocket payments (OOP) and development aid are the main sources of health spending.[87]

OOP tend to be regressive[88] since only the rich can afford them and they are not differentiated by socio-economic status. According to the WHO, the higher the proportion of OOP, the larger the share of impoverishing or 'catastrophic'[89] health expenditures by households.[90] Furthermore, a typical form of OOP is user fees for the delivery of a health service. Several studies have argued that the removal of these has amounted to positive health outcomes, reduced financial burden on households and increased access to health services due to better affordability, in particular for women.[91] Given the risks to impoverishment and the financial burden of OOP on poor households, reaching UHC in the poorest countries will most likely require increased public expenditure and aid allocations by donor countries.

4.1.2 Need for investment in public health

Both academic literature[92] and the WHO have argued that public health interventions are cost-effective and generate substantial returns on investment in both the short and long term. In its 2014 public health summary report, the WHO states that investing in health systems provides returns to both the health system in particular and the economy as a whole – at around a four-fold return for every invested dollar.[93] In addition, the WHO argues that investment in health systems and preventive approaches can both enhance health outcomes and reduce future escalating costs.[94] For these reasons, Masters et al conclude that cuts to public health budgets represent a "false economy".[95]

Beyond a purely economic perspective to health systems, increased health expenditure is necessary in LICs and LMICs to guarantee access to basic health services. Academics estimate that LICs and LMICs need to spend an additional $208 billion annually to attain essential UHC.[96] An estimated additional $274 billion per year is needed to reach Sustainable Development Goal (SDG) health targets by 2030.[97] These estimates point to the urgent need to free up fiscal space for health spending.

4.2 Fiscal adjustment and health

4.2.1 Debt service and 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.

First of all, for countries facing protracted and serious debt problems, debt relief can free up substantial public resources for health spending, as the debt relief initiative for Heavily Indebted Poor Countries (HIPC) has shown.[98] However, the recent lending boom to poor countries has undone the positive effects of the HIPC Initiative. Many developing countries are again in a situation where debt burdens undermine the provision of essential public services.

Recent increases in debt vulnerabilities underline the need for debt resolution – 40 per cent of low-income developing countries can currently be considered at high debt risk or at risk of debt distress – twice as many countries as compared to 2013 levels. Most of those countries are in sub-Saharan Africa.[99] In order for African countries to deal with these high debt levels, the IMF proposes the classic mix of "prudent" fiscal policy, monetary policy focused on inflation reduction and raising more taxes with a focus on strengthening VAT systems.[100]

However, as mentioned above, several of the countries are repeat borrowers from the IMF and have undergone policy prescriptions promoted through IMF programmes for a longer period. Adjustment programmes tend to address debt problems by setting limits on contracting new debt and caps on public spending or generating new revenues in order to free up money for continued debt service payments. Debt service payments often come at the expense of productive public investment and public service provision. Debt outflows put a major strain on government budgets, which compromises governments' ability to deliver social services, including healthcare.[101]

The main issue is that debt payments are eroding valuable budgetary space. The Jubilee Debt Campaign reported that average external debt service payments increased by 60 per cent in developing countries between 2014 and 2017 – from 6.7 per cent to 10.7 per cent of government revenue.[102] From their perspective, the IMF stated that interest payments represent an increasing share of total expenditure in African countries, rising from 4 per cent on average of expenditures in 2013 to 12 per cent on average in 2017.[103]

Debt service as a share of general government expenditure is already higher than health spending in eight countries within the current sample. This competes with health spending for scarce resources. Interest payments are likely to rise further as many low-income countries started to borrow expensive non-concessional loans or issued high-yield bonds.[104]

Table 8: 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[105]

Health spending > Debt service

Health spending < Debt service

Yellow: Health spending = Debt service

Excessive debt servicing risks relegating human rights and development perspectives to the background. Both the current and former UN Independent experts on foreign debt have recognised the detrimental effects of debt servicing on realising human rights, which has led to the adoption of Guiding Principles on Human Rights and Foreign Debt.[106] The principles emphasise the primacy of human rights over debt service. They state that excessive debt service payments should not hamper a state's ability to provide social services and realise the human rights of their citizens.[107] In this regard, Eurodad has argued to make the financing needs of human rights obligations a key reference point to initiate debt restructuring and/or relief.[108] The primacy of human rights should also guide the design of economic adjustments and IMF programmes, meaning that debt restructurings should be preferred over IMF bailout loans when debt service absorbs too much public revenue and starts to undermine the state's ability to guarantee human rights.

4.2.2 Public expenditure

Our research found that the majority of countries are likely to restrict their spending or raise taxes. 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. 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.

Our current research found that 23 out of 26 country programmes require fiscal contraction, while the majority of both quantitative and structural conditionality in selected policy domains relate to fiscal space – 150 quantitative conditions and 136 structural conditions. As a consequence, the majority of countries will have to restrict their spending and/or increase their taxes.

In addition, the IMF research department has pointed out that episodes of fiscal consolidation tend to increase income inequality.[109] UN agencies have long pointed out the harmful effects on vulnerable populations,[110] in particular for women. According to UN Women: "austerity policies in both developed and developing countries are shifting the burden of coping and caring back to families and onto the shoulders of women and girls".[111] This tends to exacerbate existing gender inequality in the unpaid care economy, hampering women's increased participation in the labour market[112] – an issue the IMF identified as macro-critical. Investment in health systems has potential positive impacts on female employment when investment in social infrastructure relieves them from unpaid care duties.[113] The aforementioned negative consequences have led the UN Independent Expert to develop a Human Rights Impact Assessment for economic reform policies.[114]

CSOs, academics and official sources have all highlighted the negative impact of austerity on human rights, including the right to health.[115] Researchers at Oxford and Cambridge universities found that "an additional year of IMF programme participation decreases health spending, on average, by 1.7 percentage points as a share of GDP."[116] An earlier study found that "IMF policy reforms reduce fiscal space for investment in health, limit staff expansion of doctors and nurses, and lead to budget execution challenges in health systems."[117]

Given that the majority of countries will undergo fiscal contraction, fiscal space conditionality tends to restrict government budgets. Increased pressure on public budgets has led to knock-on effects in the health sector in some countries. We have found several instances where either health budgets were cut in order to reach IMF-mandated fiscal targets or where strained government budgets as a consequence of strict fiscal austerity led to payment arrears in the health sector (see Box 7).

Box 7: Austerity affecting healthcare budgets

Even though IMF programmes in our sample do not call directly for health budget reform, we provide a few country examples of how IMF-induced austerity measures have led to strained budgets and reduced spending in the health sector.

In Chad, the 2014 IMF programme already called for the country to reduce its non-oil primary deficit. The new programme adopted in 2017 set a target for this deficit at below 5 per cent of GDP in 2017 – a significant reduction from 16 per cent in 2014 and 10 per cent in 2015.[118]

The stringent targets on fiscal deficits impacted health budgets in Chad. Amnesty International found that Chad's health budget was reduced by half between 2013-2017, including a 70 per cent cut in the national emergency programme. As a consequence, less funding was directed towards hospitals, which has led to a reduced provision of healthcare services and shortages of medicines. Furthermore, the report notes reduced access for patients, mainly due to the increased costs, as out-of-pocket payments increased since the introduction of austerity measures in 2015.[119] Moreover, a health worker strike due to non-payment of salaries severely impeded the delivery of health services.[120]

Similarly, 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,[121] Jamaica,[122] Kenya,[123] Mauritania,[124] Togo[125] and Tunisia.[126]

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.[127]

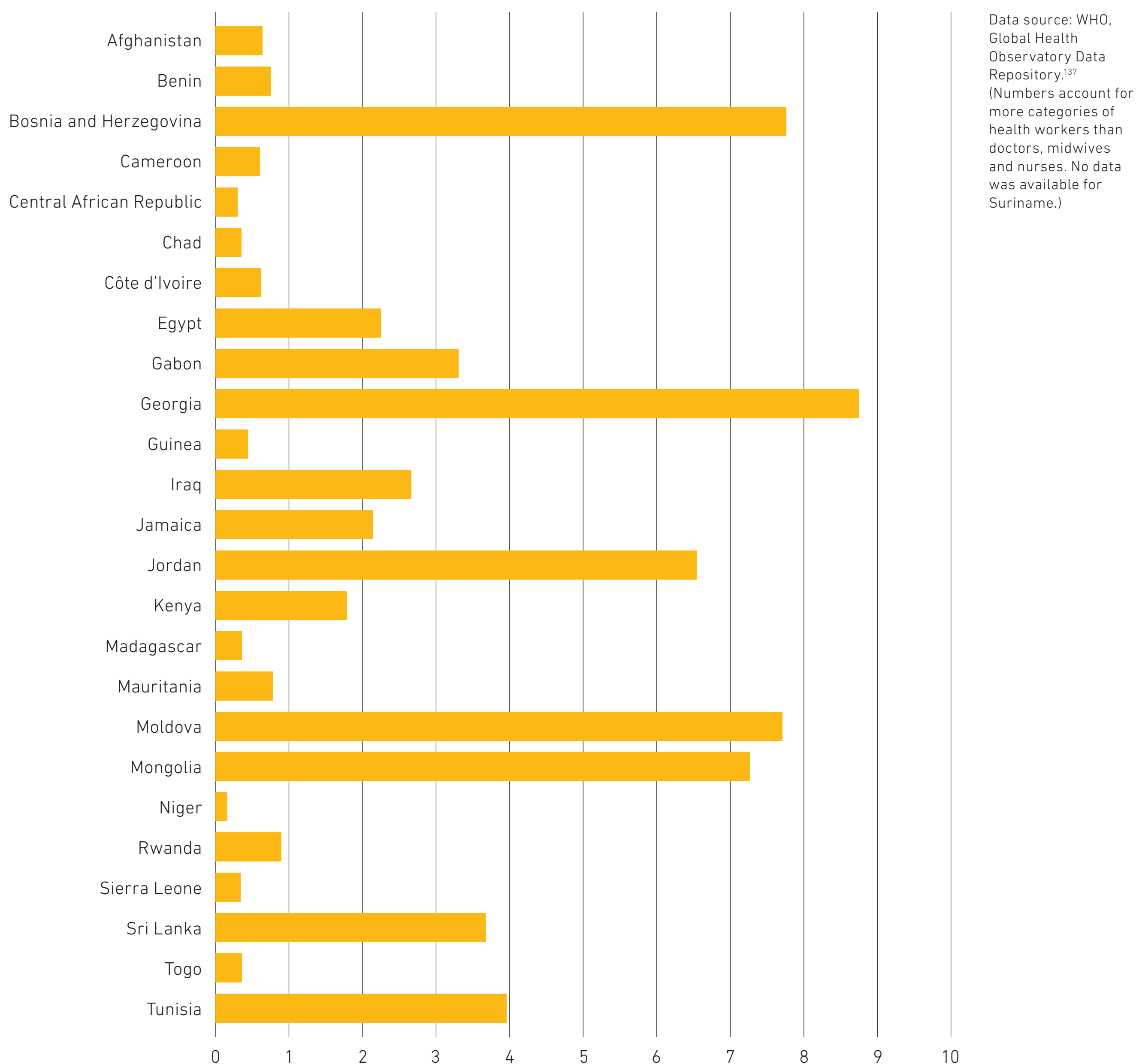
In Gabon, a new package of austerity measures was announced shortly after an IMF Review Mission to the country, which stated that programme performance was weak and called for "corrective action". The statement also announced that a package of measures would be presented to the Executive Board by the end of July 2018.[128] 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,[129] which has had a bearing on Gabon's health budget. The new reform measures call for reducing public wages, including doctors' 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.[130] This has led to dramatic scenes in hospitals as sick people now have to pay cash in order to be cared for.[131]

Public sector employment

There is an urgent need to scale up investment in health personnel to overcome staff shortages, which are most pronounced in developing countries. Governments need to allocate more money to hire and retain health personnel, to invest in decent wages, to improve working conditions and to provide adequate equipment. However, loan conditionality on wage bills can be an impediment to this level of investment.[132] Our research has found that conditionality and advice on wage bills is still widespread in loan programmes.

Our research findings suggest that a reduction in public sector employment is often considered as a means to achieve fiscal targets. Twenty-one countries had either structural conditionality or policy measures to reduce or contain the wage bill. Such conditionalities are obstacles for employing and retaining sufficient health workers,[133] and they disproportionately impact women, who represent 67 per cent of the global health workforce.[134] The International Labour Organization (ILO) estimates the shortfall to achieve UHC at 10 million health workers.[135] The WHO estimates that, in order to achieve all the SDGs, 17.4 million extra health workers are needed.[136] This corresponds to 4.45 doctors, nurses and midwives per 1,000 people. Only five countries in our sample currently meet this benchmark.

Graph 2: **Skilled health professionals density (per 1,000 population)**
Data for the latest year available ranging from 2008 to 2016



Data source: WHO, Global Health Observatory Data Repository.[137] (Numbers account for more categories of health workers than doctors, midwives and nurses. No data was available for Suriname.)

The mismatch between the available health personnel and the high demand for health services remains the main cause for the critical shortages. The expatriation of health personnel contributes to a lesser extent, while individual countries might report higher expatriation rates.[138]

The sustainability of health service delivery in low-income countries is compromised by lower staffing. If poor countries are to increase retention of their staff, they must be able to pay decent wages, improve training and working conditions such as adequate infrastructure, sufficient supply of medicines and modern technological equipment.[139] An academic study has attributed the shortcomings in health workforce education, remuneration and working conditions to austerity policies: "These challenges are often the result of misconceived macro-economic policies, as wage ceilings prevent meeting needs for health personnel".[140]

Social spending floors

The IMF claims that social spending floors should protect spending for vulnerable groups during fiscal adjustment.[141] However, their low levels are insufficient to cover essential social services in LICs and hence they risk excluding a large number of poor people from the right to an adequate standard of living, which includes the right to health.

The idea is that these floors safeguard funds for vulnerable groups and that, "In the context of spending floors, social spending is generally defined to include spending on health, education and social safety nets."[142] The social spending floors concentrate on "safeguarding" social spending at very low levels. However, several countries have a need to go beyond safeguarding and invest in their health sectors to guarantee essential healthcare. Graph 3 points to the fact that all LICs need more investment to reach the benchmark to provide a minimum level of key health services developed by Chatham House: at least $86 per capita of combined government and donor funding for healthcare.[143]

However, a review of the level of social spending floors from the LICs in our sample found that all ten LICs have spending floors that are lower than the $86 per capita target for guaranteeing a minimum level of key health services for their population, merely one dimension of social spending (Table 9). Since nine out of ten will undergo fiscal contraction, it is hard to see how such low social spending floors will shield vulnerable citizens from the effects of adjustment and how LICs will be able to scale up health investment.

Graph 3: Public health spending in low-income countries

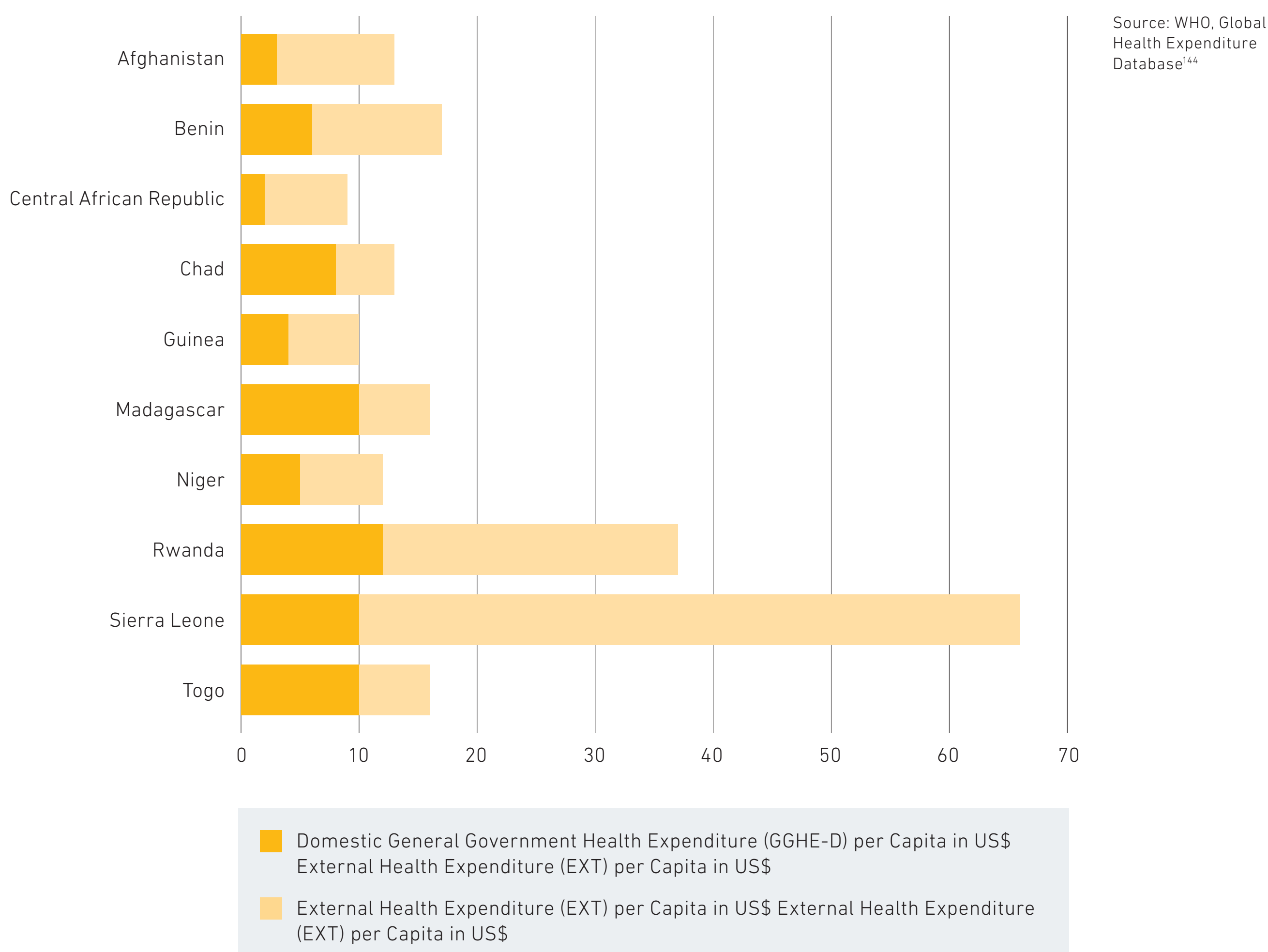


Table 9: Social spending floors ($) for selected sample countries

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.

Box 8: Underinvestment in health systems and epidemics: the cases of Guinea and Sierra Leone

Guinea, Sierra Leone and other countries were confronted with a widespread outbreak of Ebola in 2014. Health experts pointed to underfunded and underequipped health systems in these countries as the main reason that allowed the virus to turn into an epidemic,[145] costing the lives of approximately 11,300 people.[146] Health systems in these countries have been suffering from gaps in personnel, infrastructure and rapid response capacity, making them vulnerable to a rapid spread of the disease. Increasing the resilience of health systems, enabling them to both provide routine healthcare and to respond to unexpected emergencies, is the first line of defence against such epidemics.[147]

Critics argue that underinvestment in health systems is partly a legacy of structural adjustment programmes of the World Bank and the IMF, which advocated sharp reductions in government expenditure, including health systems. As a result, health spending per capita in Africa decreased by a staggering 42 per cent between 1980 and 1987.[148] In these countries overcoming years of underinvestment and creating resilient health systems will require scaling up investment in health systems from both domestic resources and concessional aid funds.[149]

However, both for Guinea and Sierra Leone, IMF loan conditionality seems to be perpetuating the vulnerability of their health systems by calling for similar policies that will reduce government expenditure, in particular through the reduction of the wage bill. In Sierra Leone, the wage bill is to decline by 1.3 per cent of GDP while in Guinea it is to be contained by 0.2 per cent of GDP; neither IMF programmes include specific safeguards for health personnel.

Such fiscal criteria restrict governments' ability to reduce shortages in health personnel urgently. In both countries there is less than one health professional for every 1,000 people.[150] Furthermore, the programme for Sierra Leone calls for a sharp reduction of the fiscal deficit.

These examples suggest that loan conditionalities on containing or reducing government expenditure can compromise a country's ability to increase the resilience of their health systems. The IMF stance of combining fiscal adjustment and safeguarding social spending is unlikely to contribute to (re)building health systems in developing countries. Instead, there is a need to scale up government investment to improve health systems including training, personnel, infrastructure and equipment in order for developing country governments to provide adequate levels of protection from epidemics and to offer adequate healthcare to their populations.

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. The fact that the IMF imposes loan conditionality threatens to undermine democracy and ownership for reforms in borrower countries. The type of conditions imposed makes it difficult for states to provide essential public services and fulfil their human rights obligations.

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.

This research identified knock-on effects of IMF conditionalities on health systems and access to health services. The most damaging measures are those mandating budget cuts and public sector employment reductions. The prioritisation of debt servicing in countries with IMF programmes competes with health spending, in a way that rapidly growing debt service costs threaten to crowd out health spending.

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.

Annexes

Eurodad has compared the budget deficits of the sample countries between the last year before the IMF programme was agreed and the end of programme. The data is derived from the loan documents, which provide projections of the evolution of the budget balance throughout the programme period.

Eurodad grouped data for primary balance, fiscal balance and operating balance. These are indicators to measure fiscal performance making abstraction of certain elements, in particular interest payments. According to the IMF the primary balance would give a more accurate picture of a government's fiscal policy.

However, the various country programmes have different methodological approaches to the primary balance, while some use the basic balance or operating balance as a reference. This complicates comparison. Therefore, to determine whether a programme called for fiscal consolidation, we evaluated the programme objectives, policies and strategies. If there was an explicit reference to fiscal consolidation, we considered that the programme mandated fiscal consolidation. Table 1 gives, however, an indication of the severity of the fiscal adjustment required.

Table 1: Annex Primary Balance / Basic Balance / Operating Balance as % of GDP

Country	Last year before programme	End of programme
Afghanistan	-9.4	-8.7
Benin	-5.5	-0.6
Bosnia and Herzegovina	3.4	6.5
Cameroon	-5.6	-0.8
Central African Republic	-3	-0.9
Chad	-4.4	-3.6
Côte d'Ivoire	-0.4	1
Egypt	-3.6	2.1
Gabon	-11	-3.6
Georgia	-2.9	-1.7
Guinea	-0.7	1.1
Iraq	-34.4	-28.4
Jamaica	7.1	7
Jordan	-5.2	0.9
Kenya	-5.3	-1.3
Madagascar	-1.3	0.3
Mauritania	0.6	1.9
Moldova	-1.5	-1.9
Mongolia	-13.1	0.3
Niger	-4.4	-0.9
Rwanda	-4.1	-2
Sierra Leone	-6.7	-2.1
Sri Lanka	-2.2	0.8
Suriname	-7.4	0.3
Togo	-7.2	2
Tunisia	-2.7	-0.6

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