

Some Principles for IMF Engagement on Issues Related to a Scaling up of Resources for Health MDGs

Presentation
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December 2, 2004
High Level Forum on Health MDGs, Abuja Nigeria

In what follows, I discuss how the IMF seeks to engage in the effort to meet the MDGs, the role that it can realistically play, and its limits.

Within the donor community, the IMF supports international efforts to expand the availability of sustained resource inflows to meet the MDGs and, in that context, to fight HIV/AIDS and other major disease problems effectively. It also supports the effort to develop a consistent international policy framework (e.g., with respect to the fight against HIV/AIDS). More specifically, the Fund:

- encourages a predictable, sustainable flow of funds, from donors, with as large a component as possible of grants rather than loans;
- continues to work with other TA providers to help countries strengthen their public expenditure management systems, to promote improved absorption and monitoring of external resource flows for key policy priorities; and
- in the context of the international effort to fight HIV/AIDS, supports the UNAIDS' advocacy of a "three ones" approach to national efforts to address HIV/AIDS—a unified policy framework, coordination by a single national agency of a country's HIV/AIDS prevention and treatment (P&T) effort, and a unified monitoring and evaluation framework for assessing UNAIDS programs;

The IMF's role relates first and foremost to the integration of national policies and external resource inflows (which are becoming more important in the context of the growing international financial commitments to fight the HIV/AIDS epidemic) into countries' macroeconomic frameworks. The Fund relies on its development partners—principally the World Bank, the WHO, and countries concerned—for the formulation of policies in the health sector that help ensure that financial assistance is effectively utilized, as well as policies in other sectors (e.g., education) related to meeting the health MDGs. Specifically, Fund staff will continue and, as necessary, strengthen its efforts to:

- in countries where HIV/AIDS prevalence rates are or are likely to become high, consider the short to medium term macroeconomic implications of the epidemic—in terms of demographic effects, the labor market, productivity impact, the fiscal impact, etc;

- support national and international efforts to ensure that available financial resources for meeting the health MDGs (such as with respect to recent financing of HIV/AIDS prevention and treatment efforts) are disbursed and used as effectively and efficiently as possible;
- place any program for a scaling up of resources for the health MDGs into the context of the broader macroeconomic policy and budgetary framework associated with the PRSP. In the context of its work on Fund-supported programs, the staff will examine whether the program targets or ceilings, e.g., on the fiscal deficit, civil service pay, and employment, are consistent with the disbursement of these flows;
- highlight for MOFs and Central Banks the potential short and long-term implications of any additional external resource inflows that may imply an appreciation of the real exchange rate through an increase in price of nontraded goods and services; and work with the Central Bank and the MOF to consider how any adverse impact of additional ODA flows on real exchange rates can be minimized through sterilization or other measures such as trade liberalization;
- emphasize the importance of governments mobilizing additional revenue resources and cutting unproductive expenditures. Relying on World Bank public expenditure analyses, Fund staff emphasizes the importance of spending on policies that encourage human capital formation, address key MDG targets, and foster productive investment in contrast to unproductive expenditures, subsidies, etc; and
- be supportive of programs that seek to expand employment in the health sector, provided that there is a *sustainable* source of funding for this employment. In the absence of such funding, Fund staff will encourage flexibility in employment relationships—contractual, temporary forms of employment.

But concerning macroeconomic tradeoffs, there are *limits* as to the role of the IMF:

- Financial assistance in support of programs to address the health MDGs cannot be seen in isolation from the fact that most countries are also receiving ODA for other purposes and have multiple policy objectives to achieve. Issues of the macroeconomic policy framework (in terms of growth and inflation), debt sustainability, the predictability of external resource flows, and absorptive capacity constraints will all be relevant considerations
- The IMF *cannot* make the final determination of how budgetary tradeoffs are resolved between spending on the health MDGs and other potential allocations of fiscal resources (spending on other sectors and programs, tax policy measures). Ultimately, these are the decisions of the national authorities.
- The IMF attaches considerable importance to the maintenance of a sustainable debt position; therefore it strongly encourages external financing through grants rather than loans. Conceivably, there may be instances where debt sustainability concerns

may be binding in judgments on an expansion of overall loan-financed government spending.

- The Fund would find it difficult to support programs that entail monetary financing that would result in substantial inflation rates that would both disadvantage the most vulnerable groups in a society as well as deter productive investment decisions.
- Fund staff will emphasize that ultimately, the decision on the extent of sterilization, the amount of acceptable real exchange rate appreciation, and possibly the amount of additional external resource flow that is allowable, must be the decision of the country authorities. In some cases, the Fund might find it difficult to support policy decisions that result in real exchange rate effects that would have significant deleterious long-term effects on an economy's potential growth in output and employment.
- Finally, the IMF staff doesn't have the experience to determine whether additional flows for specific health-related programs, such as for HIV/AIDS, are well used in specific prevention or treatment programs.

To carry out its role, the IMF will strongly encourage the marshalling of full information on which to make policy decisions relating to a scaling up of programs to meet the health MDGs.

- For example, recognizing that international initiatives—the US Government PEPFARS initiative, the Global Fund to Fight AIDS, Malaria and Tuberculosis; the Millennium Challenge Corporation; and the I Financing Initiative—may imply a significant scaling up external resource flows to certain countries, Fund staff will seek to work with the key donor agencies to ensure that full information on the timing and magnitude of such flows are taken into account in the formulation of the macroeconomic policy framework.
- Moreover, in the context of recent initiatives to fight against HIV/AIDS, the Fund, in its collaboration with the World Bank, the WHO, the MOF, the MOE, MOH, and any national coordinating agency for HIV/AIDS, will strongly encourage these agencies to clarify the following issues, given their comparative advantage on technical policy issues in the health and education sectors:
 - the potential manpower implications of a scaling-up of resources for HIV/AIDS P&T;
 - the cost implications of additional training programs, both in the health and education sectors;
 - the likely time pattern of such scaling-up efforts;
 - the fiscal implications of any scaling up programs—whether in terms of expansion required in the staffing of the Ministry of Health, other ministries, or in terms of increased compensation packages that might be implied by programs that affect pay levels in the private sector;

- Issues associated with the scaling up of resources for health as well as other MDG targets should certainly be reflected in PRSP discussions, but also in the context of annual budget deliberations.
- The Fund will encourage interaction between the Ministry of Finance, and other concerned ministries (in health, education, any national coordinating agency for HIV/AIDS, etc) as well as donors and other concerned parties (NGOs) in order to ensure that there is full discussion of the policy issues associated with budgetary decisions that affect programs to meet the health MDGs, and more specifically, HIV/AIDS prevention and treatment programs as well as programs for expanding training programs.
- Fund Resident Representatives will be proactive and in touch with all relevant parties concerned.