

## **A NOTE ON IMF GUIDANCE FOR STAFF ENGAGEMENT ON HEALTH SPENDING IN MEMBER COUNTRIES**

Barry Herman<sup>1</sup>

On December 22, 2023, the International Monetary Fund (IMF) published a Technical Note for staff to guide their engagement with member countries when it becomes appropriate to discuss the government's expenditures on health (IMF, 2023). This was the third in a promised set of four papers to guide staff in implementing its 2019 Strategy for IMF Engagement on Social Spending (IMF, 2019). Owing to the exigencies of the pandemic, the first two papers were not released until June and October of 2022, offering guidance for staff engagement on public pensions and social safety nets (IMF, 2022 and 2022a), often otherwise classified as "social insurance" and "social assistance." A fourth paper is planned for guidance on education expenditure. As I prepared a note on the previous two papers (Herman, 2023), I looked as well at the new note and discuss some issues here.

While this note addresses the Fund's paper on health spending, it is noteworthy that the IMF has very recently released an "Operational Guidance Note" on design of IMF lending programs and their conditionality (IMF, 2024). That guidance note gives a welcomed increased focus on social conditions and social policy exigencies in program countries.<sup>2</sup> Building on the four "technical" papers, a note giving formal guidance on social spending in surveillance and Fund programs is planned.<sup>3</sup>

### **Approach of the Fund's paper**

The health spending note on which this paper focuses follows the general approach of the other papers, first arguing that IMF staff concern about health issues in member countries would only be warranted for cases where health spending is "macro-critical," although once that assessment is made, the Fund would have staff consider the same three-pronged approach as in the previous papers; i.e., governments should seek to make their health spending adequate, efficient and financially sustainable.

The basic case for public provision or financing of health services, as for social protection, is still the market-failure case, with no mention of the human right to health. At least, the case for public involvement in health care provision can lead to universal coverage, as the reason given that health is a public responsibility is the economies of scale in health care, and also because of the politically undesirable (politically unsustainable?) distributional results of private care (p. 9).

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<sup>1</sup> Revised draft; comments still welcome ([herman@socdevjustice.org](mailto:herman@socdevjustice.org)).

<sup>2</sup> Perhaps it is indicative that the guidance for the new guidance note begins by citing the Management Implementation Plan (MIP), which was the response to the Independent Evaluation Office's 2021 assessment of conditional programs. The MIP called for "increasing the realism of growth projections and fostering a more systematic analysis of contingency plans and social and distributional implications in Fund-supported programs" (IMF, 2024, p. 8). The new guidance note also has a three page discussion of social spending in fiscal guidance (*ibid.*, pp. 72-74), which begins by saying that Fund-supported "programs should seek to protect social spending and mitigate the adverse effects of program measures on the poor and vulnerable." Seems good. Let's see what happens as staff implement the guidance note.

<sup>3</sup> "Guidance Notes" apparently have a higher standing than the series of "Technical Notes and Manuals," which an anonymous source claimed, perhaps exaggerating for effect, the staff do not read them. The Fund itself refers to the three social spending notes already issued as "background notes" (IMF, 2024, p. 72n).

The note seems a bit obtuse when it says that a problem with public health care provision is that “public regulators do not necessarily know what consumers want” and public provision lacks the “market discipline” that would result from private provision (p. 9). One must be puzzled about this, except that nowhere in the paper is there any reference to consulting consumers of health care or health care workers.<sup>4</sup> However, the paper does encourage Fund staff to “establish and strengthen collaborations at the country level with agencies with specialized knowledge on the design and implementation of health policies, including the World Bank, the World Health Organization, and the UN Children’s Fund, and leverage any existing centralized collaboration mechanisms with these institutions” (box 1, p. 3).

### **Specific issues**

When it comes to defining “adequacy” the note seems unusually disinterested in how to define it. “The essential basket of services might vary across countries depending on national health objectives, any adopted international standard and a wide range of economic, historical, political, and social factors” (p. 12). If the text had simply omitted the words “any adopted,” it would have sent a different message to its mission staff. In fact, the note suggests that internationally adopted sustainable development goal (SDG) indicators 3.8.1 and 3.8.2 might be appropriate ways to measure progress toward provision of essential health services (box 5, p. 12). Indeed, linking health spending in surveillance to progress on SDG 3 is explicitly recommended (p. 24).

The note also recommends paying attention to potential interactions among the three dimensions. One example is that if co-payments are charged to lessen “overuse” of medical services (improve efficiency), it could especially hurt poor people who might just need those services and not be able to afford them (inadequacy) (p. 2). The paper also notes interactions with non-health policies, such as that decarbonization will improve health from reduced air pollution (p. 9).

The comment in the previous papers about the negative impact of social protection on labor supply is repeated here for health care (p. 2). Perhaps the authors had in mind a presumed disincentive effect of taxing workers for their health care (p. 17n). In this regard, the citation of French reform to shift away from wage-based contributions to health insurance was interesting (box 9, p. 20).<sup>5</sup>

Finally, as argued, health care planning needs to be part of medium-term expenditure and revenue programs. Where the need for health care expenses will rise as the population ages and life expectancies rise or for whatever reason, the public system for health provision needs to be able to grow with it. If this implies increased borrowing for health care, then the impact on the sustainability of sovereign debt may become relevant and additional revenue measures would need to be considered. The paper also recommends that countries not rely on donor funding (official development assistance) to maintain ongoing current expenditures, as donor funding is notoriously volatile (p. 17). In addition, countries that rely significantly on private health spending are cautioned to consider under what circumstances a portion of that spending might have to be taken over by the government, making it a contingent public liability (p. 15).

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<sup>4</sup> In fairness, the paper does refer to “stakeholders,” although never delineating that they should include doctors and other providers, consumer advocacy organizations, employers and trade unions, etc. The technical notes on social protection, in contrast, encouraged early consultation with relevant stakeholders to help inform the Fund’s analysis.

<sup>555</sup> I must ask how the statement about the UK imposing “stringent caps” on government health spending in box 9, along with a series of reasonable reforms, was meant to be interpreted in light of the general appreciation in the UK that the Tories have really hurt the capacity of the National Health Service to do its job. The caps seem to be celebrated in that text. Should that policy have been phrased as a warning?

## A parting takeaway

As noted above, the health note did not recommend that staff consult with organizations in its member countries representing citizens or providers of health care whose members have a personal stake and expertise in the health care system. This seems important if the Fund intends to engage on issues of adequacy and efficiency, as well as fiscal sustainability. That seems an oversight that should be corrected. It is also a view at odds with that in the previous two notes on social spending.<sup>6</sup>

Hopefully, the discussion that Fund staff held with civil society experts on February 6 will mark the beginning of a return to more active engagement of civil society, organized labor and academic experts in shaping the IMF's approach to social spending.

## References

Herman, Barry (2023). "IMF Has a New Policy on Social Spending: How Should the Fund Implement It?" (<https://www.socialprotectionfloorscoalition.org/resources/>)

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<sup>6</sup> Consistent with this shortcoming, it does not appear from the acknowledgement footnote at the beginning of the paper that there was any consultation on the paper with civil society organizations that operate as advocates and providers of services in member countries, often to the poorest of the poor, to support women's health, the disabled, children and mothers.