

## Application of IMF Social Expenditures Mandate

There are two “directed vote” legislative mandates applying to US votes in the IMF’s Executive Board that relate to social expenditures in IMF programs in HIPC countries. The first is found in the Department of State and Foreign Operations Appropriations Act, included in the FY09 Omnibus Appropriations Act (enacted 3/11/09). The second, in the FY09 Supplemental Appropriations Act (enacted 6/24/09), provides in relevant part:

*The Secretary of the Treasury shall instruct the United States Executive Director of the International Monetary Fund to use the voice and vote of the United States to oppose any loan, project, agreement, memorandum, instrument, plan, or other program of the Fund to a Heavily Indebted Poor Country that imposes budget caps or restraints that do not allow the maintenance of or an increase in governmental spending on health care or education; and to promote government spending on health care, education, food aid, or other critical safety net programs in all of the Fund's activities with respect to Heavily Indebted Poor Countries.*

The Department of the Treasury has invested substantial staff time assessing all requests for IMF resources from relevant HIPC countries to determine compliance with the mandates. In the limited number of cases considered under the mandates to date, Treasury has found in each case that the IMF program has allowed for an increase in health and education expenditures. However, in any case where an IMF program does not meet the legislative standard for protection of health and education expenditures in HIPC countries, the U.S. Executive Director will oppose (abstain or vote ‘no’) IMF Board decisions related to the program. Also, the U.S. Executive Director’s board statement in discussions of any relevant HIPC country programs always stresses the importance of protecting health and education expenditures, as well as other poverty reduction spending.

Here are some specific examples of how the evaluation process has worked:

### **Haiti (5th PRGF Review - 6/29/09)**

- On June 29th, the IMF Executive Board considered the fifth review of Haiti’s Poverty Reduction and Growth Facility (PRGF).<sup>1</sup> The IMF Board’s decision to complete the review made \$24 million in IMF concessional financing available to Haiti, and also made Haiti eligible for approximately \$1.2 billion in debt relief under the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).
- Treasury requested that IMF staff provide projections of health and education expenditure under the 2009 PRGF-supported economic program in order to assess whether the program allowed for a maintenance of or increase in social expenditures. IMF staff’s projections indicated that health expenditures would increase from 1.6 billion gourdes (0.6% of GDP) in 2008 to 6.3 billion gourdes (2.2% of GDP) in 2009. Education expenditures were projected to increase from 5.3 billion gourdes (2.0% of GDP) in 2008 to 6.4 billion gourdes (2.2% of GDP) in 2009.
- Treasury staff concluded that Haiti’s PRGF allowed for an increase in health and education expenditures, because both types of spending were increasing in nominal terms and as a percent of GDP under the IMF program.

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<sup>1</sup> The Poverty Reduction and Growth Facility is one the IMF’s concessional financing facilities available to low-income countries. A PRGF is a three-year program tied to a country-developed Poverty Reduction Strategy that supports macroeconomic stability and macro-critical structural reforms.

### **Republic of Congo (1<sup>st</sup> PRGF Review - 6/17/09)**

- On June 17<sup>th</sup>, the IMF Executive Board considered the Republic of Congo's first review under its PRGF. The IMF Board's decision to complete the review made \$1.9 million in IMF concessional financing available to Congo.
- Treasury requested that IMF staff provide projections of health and education expenditure under the 2009 PRGF-supported economic program in order to assess whether the program adequately protected social expenditures. IMF staff's projections indicated that health spending would increase from 57.1 billion CFAF (1.2% of GDP) in 2008 to 74.5 billion CFAF (1.6% of GDP) in 2009. Education spending is projected to increase from 75.0 billion CFAF (1.5% of GDP) in 2008 to 76.6 billion CFAF (1.6% of GDP) in 2009.
- Treasury staff concluded that Congo's PRGF allowed for an increase in health and education expenditures, because both types of spending were rising in nominal terms and as a percent of GDP under the IMF program.

### **Afghanistan (5<sup>th</sup> PRGF Review - 4/22/09)**

- On April 22<sup>nd</sup>, the IMF Executive Board considered Afghanistan's fifth review under its PRGF. The IMF Board's decision to complete the review made \$17.5 million in IMF concessional financing available to Afghanistan.
- Treasury evaluated projections for health and education spending presented in the IMF Staff Report to assess whether the program adequately protected social expenditures. Under the PRGF's fiscal program, health spending is projected to increase from 2.5 billion Afghanis (0.4% of GDP) in the 2008/09 budget year to 5.3 billion Afghanis (0.8% of GDP) in the 2009/10 budget. Education spending is projected to increase from 4.1 billion Afghanis (0.7% of GDP) in 2008 to 5.9 billion Afghanis (0.9% of GDP) in 2009.
- Treasury staff concluded that Afghanistan's PRGF allowed for an increase in health and education expenditures, because both types of spending were rising in nominal terms and as a percent of GDP under the IMF program.

### **Cote d'Ivoire (Request for a PRGF - 3/27/09)**

- On April 22<sup>nd</sup>, the IMF Executive Board considered a request from Cote d'Ivoire for a three year, \$553 million PRGF. The IMF Board's approval of the arrangement made \$148 million in IMF concessional financing available to Cote d'Ivoire, and also made Cote d'Ivoire eligible for interim debt relief under the HIPC Initiative.
- Treasury evaluated projections for health and education spending presented in the IMF Staff Report to assess whether the program adequately protected social expenditures. A critical goal of the PRGF program is a reorientation of spending away from conflict-related expenditures towards "pro-poor" expenditures (which includes spending on agriculture, health, education, water, and basic infrastructure). The program explicitly monitors pro-poor spending, and targets a rise from 6.9% of GDP in 2008 to no less than 7.7% of GDP in 2009. Under the 2009 PRGF program, health spending is projected to increase from 98.3 billion CFAF (0.9% of GDP) in 2008 to 118.8 billion CFAF (1.1% of GDP) in 2009. Education spending is projected to increase from 496.9 billion CFAF (4.7% of GDP) in 2008 to 536.6 billion CFAF (4.9% of GDP) in 2009.
- Treasury staff concluded that Cote d'Ivoire's PRGF allowed for an increase in health and education expenditures, because both types of spending were rising in nominal terms and as a percent of GDP under the IMF program.