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An analysis of the IFIs' fiscal policy recommendations

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MAIN POINTS

Despite rhetorical emphasis on poverty reduction and country ownership, the core of the IFIs' fiscal policy recommendations remains fiscal thrift and structural conditions. Low-income countries are more constrained than middle-income ones despite their greater need for action.

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Executive summary

This paper analyses the expenditure recommendations made by International Financial Institutions (IFIs) to low and middle-income developing countries. We argue that IFIs expenditure policy recommendations are firmly focused on fiscal thrift. Low and middle-income developing countries have been advised over the years to focus on maintaining a low fiscal deficit, rather than on how the policy plans can be implemented to aid the changes called for.

We also argue that focus on middle-income developing countries has been less studied, unlike extensive analyses of low-income countries (such as Eurodad 2004). We summarise the results for taxation and expenditure in this Eurodad matrix and then focus on two middle-income countries (Brazil and Thailand) to extend the analysis.

The main results that emerge can be summarised as follows:

- IFI policies: The rhetoric of the IFIs calls for a pro-poor fiscal policy to be matched with a focus on streamlined conditionality and country ownership.

- Low-income developing countries: The main trends from our analysis point to a strong focus on fiscal thrift to which most other concerns are subordinated. Concerning social expenditure plans, there is little informative discussion supporting claims of encouraging pro-poor spending.

- Middle-income developing countries: The focus on fiscal thrift is still apparent but the main trends from our analysis point to a little more flexibility and strength for middle-income developing countries in their challenge to define their expenditure policy recommendations.

We conclude that there are important differences related to the flexibility of recipient governments in relation to IFIs recommendations but that there are major similarities in the focus on fiscal thrift and structural conditions paired with a paucity of data available on levels of pro-poor spending. We argue that there is a need for fiscal thrift not only to be met by reduced expenditure, but also by tax reform. Simply cutting expenditure and not nurturing an effective tax system, however, undermines both the growth of and the struggle in the construction of effective state institutions. A circular relationship between institutions and growth, each being necessary for the other, is crucial.

In addition, there needs to be more evidence that the IFIs are indeed proving faithful to their claims of encouraging pro-poor spending and employing participatory approaches in designing fiscal policy: there needs to be less reliance on vague rhetorical terms and more evidence of targeted social spending. In line with these recommendations, we argue that there is a large research agenda which merits urgent attention: more study is needed on the effects of IFIs recommendations as well as the merits and ramifications of tax reform in low and middle-income countries.

Introduction

Poorer countries spend much less than richer ones on social expenditures. Some argue that such low expenditures are the result of the pattern of taxation, which prevails in the poorer countries. This implies that if the pattern of taxation could be changed, the expenditures would also change. With a constrained budget it is difficult to do many things, thus spending wisely is important and this, unfortunately, is not very common in poorer countries. Before going into a detailed analysis of the recommendations on expenditure policies, we need to define ‘expenditures’. Government social expenditures are defined in various ways in policy documents, academic literature and reports. A broad definition is one that emphasises ‘social services and poverty reduction expenses’. More specifically, key areas of public expenditure measures are health and education (Fitzgerald, 2003). In this analysis of IFIs policy recommendation we define expenditures as government expenditures on health, education, poverty-reduction strategies, rural, urban and infrastructure development and to a lesser extent social security benefits and pensions.

In many developing countries spending on health, education and other transfers, accounts for a large share of the governments’ expenditure budget (Chu et al, 2000). Government social spending can offer immediate benefits to the distribution of income through health services or offer benefits on a longer term such as through education. Data studies on the levels of expenditure and the impacts on the benefit incidence of government education and health spending in a sample of 29 developing and transition economies over 1978-1995 show that there has been some improvement in the progressivity of expenditure policies, whilst the targeting is lacking in many countries (Chu et al, 2000). In this paper we investigate how IFIs recommendations tackle issues such as distribution of income and targeting of health and education spending over the last 10 years in various low and middle-income developing countries.

We begin our analysis by summarising the advice given by the IFIs to low-income countries in connection with the Poverty Reduction and Growth Facility (PRGF). We will set out the key trends in the IMF’s recommendations and then compare these to the broad rhetorical claims of the IFIs. Then we move to a more detailed consideration of IFIs recommendations to and the reactions of two middle-income countries, Thailand and Brazil. Finally, we aim to engage in a comparison between the recommendations given to low and middle-income countries, hoping to gain further insight into the nature of IFIs’ call for fiscal thrift and the reaction of recipient governments to that call. We conclude that there are important differences related to the flexibility of recipient governments in relation to IFIs recommendations but that there are major similarities in the focus on fiscal thrift and structural conditions paired with a paucity of data available on levels of pro-poor spending.

I. IFI expenditure recommendations for low-income countries

The European Network on Debt and Development (EURODAD) developed a matrix to assess the policies of the IMF's Poverty Reduction and Growth Facility (PRGF) for low-income countries. The matrix contains detailed information drawn from IMF country reports and letters of intent[1], covering eighteen countries[2]. Upon examination of the data describing the IMF's recommendations on expenditure policy, there are several patterns that appear.

However, before moving to an exposition of the trends, it is important to address the position that rhetoric has played in the development of the PRGFs. It is the claim of the International Financial Institutions (IFIs) that they aim to base their programming on country ownership, streamlined conditionality, 'pro-poor spending', and a participatory approach to programme design. Eurodad, however, questions these claims, especially that of the IMF to be pro-poor (Eurodad, 2004). According to the IMF, a PRGF programme is supposed to be developed in response to a Poverty Reduction Strategy Paper (PRSP), a document produced by the country, which outlines a macroeconomic framework and general development plan. Thus, relevant concerns from within civil society and government can supply valuable input to IMF staff.

However, the trends evident from the data on expenditure do little to support the claims of IMF rhetoric. There are four main patterns emerging from the IMF recommendations on expenditure: the call for tight fiscal policy; the lack of flexibility; the development of plans for structural change; and the marked lack of description of social expenditure targets or components.

The most obvious pattern across the data is a fall in the levels of fiscal deficits; indeed, all countries save Zambia, Uganda, and Vietnam are programmed to see such decreases, the average being a drop of 1%. With such a focus on fiscal targets, the use of expenditure as a policy tool for the reduction of poverty or the improvement of infrastructure is limited. For instance, in the case of both Senegal and Ethiopia, the fund criticised the PRSPs for their optimistic expenditure goals.

In the case of Ethiopia, the PRSP called for expenditure in priority poverty areas in 2003/04-2004/05 to be increased to a level that would mean a fiscal deficit of 6.7%. However, the Fund stated that the increase in spending did not fit with the IMF's 'prudent and sustainable fiscal policy over the medium term'. Despite the fact that the increased spending was in the end financed by the World Bank, Eurodad notes in the matrix that the IMF was not pleased about the decision. For Senegal, the IMF noted the authorities' acceptance of the PRSP as a 'desirably ambitious point of reference' but went on to describe the reliance on 'more prudent assumptions', emphasising the importance of the private sector and the absorptive ability of the economy.

As well as the emphasis placed on maintaining low level fiscal deficits, there is an evident lack of flexibility or alternatives in the PRGF programs. Only a third of the 18

[1] These letters of intent are the result of international dialogue and will between the IFIs and the country in question and as such we believe they are a useful source for the analysis of IFIs policy recommendations.

[2] These are Albania, Bolivia, Burkina Faso, Cambodia, Cameroon, Ethiopia, Ghana, Malawi, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, Vietnam, and Zambia.

countries have sections in their reports dealing with fiscal flexibility. For two, it is due to exigent circumstances and not due to any kind of recognition of the fragility of low income economies: in the case of Malawi an impending food shortage is described as creating the need for a more flexible plan while in the case of Niger, it is the threat of disturbances caused by the conflict in the Cote d'Ivoire. In the other countries where some notion of fiscal flexibility is discussed, there is a general description of the uncertainty surrounding the costs of structural adjustment or the levels of revenue and inflation. In addition, as in the case of Bolivia, the assumption that the shortfalls or excesses in the budget will have to alter expenditure projects again stresses the fact that the IMF recommendations seem to put expenditure policy at the mercy of the principle of maintaining as low a fiscal deficit as possible.

When expenditure policy is discussed more specifically, the focus is often on structural change and an aim to increase transparency, efficiency, and accountability. The recommendations in this area take two forms. The first is the push for countries to engage in privatisations of sectors that constitute an apparently inappropriately large weight on the budget. With all but one of the country reports including a program for some level of privatisation, many of the reports called for the privatisation of utilities, as in the case of Albania's electricity provider, banks, or other providers of services to a broad portion of the population.

There are two reasons that such a focus on privatisation is of concern. The first is that according to recent IFIs claims to be streamlining conditionality and limiting overlap between the Fund and the World Bank, privatisation should only be dealt with by the Fund if it is needed to improve general macroeconomic performance. Out of the 18 countries' PRGFs, all but Cambodia's include privatisation as a structural condition and only in three of these is the World Bank stated to be either leading or heavily involved in the privatisation process. Even if the IMF does in many of the cases argue that the privatisation is required for positive changes in the macroeconomic environment, the prevalence of privatisation as a structural condition is markedly high, highlighting a need to examine carefully the link between privatisation and improvements in the macroeconomic situation. Additionally, there is a need to evaluate the ability of the World Bank and the IMF to maintain the separate functional scopes described in their rhetoric.

Secondly, if privatisation is linked to a concern for the general macroeconomic environment, there is the danger that there will not be adequate analysis of the impact of privatisation on the poor. There is a need for further research into the long-term effects of privatising banks and utilities such as water systems upon which large sectors of the population crucially depend.

The second part of the structural change of expenditure policy is centred on the recommendation to engage in Public Expenditure Management (PEM), thereby increasing efficiency in the bureaucracy as well as the visibility of both the planning and execution of expenditure policy. Five of the eighteen country reports explicitly stress the importance of PEM as a part of structural conditionality discussions. There is a high level of detail in the recommendations: in Mauritania, for instance, the description of PEM reforms includes both the description of the computerisation of a tracking system for expenditures as well as the World Bank promise to provide assistance to assess the effects of increased spending on water.

However, the final and perhaps most marked trend in the data is the lack of sufficient information to provide a well-formed impression of either the targets for or the possibilities of measuring the progress of social expenditure. In seven of the reports there was either no data or insufficient data to supply a measure of social expenditure as a percentage of GDP. The number of countries that provided disaggregated measures of social expenditure was even lower: seven reported percentages for educational spending, eight for health expenditure, and only two for agricultural spending. Within selected brief descriptions of what constituted social expenditure, there was the claim of a certain amount addressing poverty-related problems. However, the vacuity of the call for 'poverty-related expenditure' does not constitute any sort of in-depth agenda for a programme for poverty reduction. Only two country reports addressed the issue of equity while two others briefly mentioned the redistributive possibilities of reform. Only Cambodia directly mentioned the possibility of redistributing assets from the highest income group to the lower groups by means of 'higher social spending'.

A brief summary of the Eurodad PRGF Matrix provides an insight into the worrying contrast between the IMF rhetoric and the programmes actually developed and implemented in the lower income countries included here. The firm focus of the PRGFs on fiscal thrift and the lack of flexibility means that the programmes include much more on how to maintain a low fiscal deficit, than on how the loans can actually be used to implement the changes called for in the PRSPs. The accompanying lack of contingency plans also sacrifices the potency of expenditure policies, putting them at the mercy of unforeseen circumstances, which are not unusual in countries dependent on the international price of a major export or the political situation in a neighbouring state.

The advice directly describing expenditure policies is mainly focused on structural improvements: the clear and detailed calls for an increase in PEM seem to be the most easily implemented part of the recommendations. Nonetheless, the fact that privatisation is included in almost all PRGFs as a structural condition is worrying both because there does not seem to be enough analysis of its effects on the poor and because it is a sign of the continuation of confusion between the separate scopes of the World Bank and the IMF. Finally, while the rhetoric of the IMF is focused on pro-poor strategies and participatory approaches, it is disturbingly difficult to obtain any kind of clear impression of how social expenditure is being structured and what exactly is included in amounts labelled as poverty-related.

Thus, it is difficult to make much meaningful comment on the social expenditure targets as % of GDP due to limited data presented in the programme agreements and the varying criteria as to what constitutes 'social expenditure'. This lack of content or clarity with regards to social expenditure, as well as the general of disaggregated expenditure data makes it very hard to assess the expenditure of the programmes and therefore to determine to what extent spending is 'pro-poor'.

II. Two middle-income countries: Brazil and Thailand

In this section we analyse the IFIs recommendations for middle-income developing countries. We aim to find out whether our findings differ from the above analysis. Perhaps the IFIs are more limited in their recommendations for middle- income countries, perhaps less cautious. One could also think that the recommendations and conditions vary from one country to the next, whilst economic conditions, the trade situation etc could influence the specific recommendations. First we will give a detailed analysis of expenditure policy recommendations for Brazil and analyse if there are differences in the regions or sectors. Then we take a look at Thailand after which we try and relate our findings to the Eurodad matrix summary.

Brazil

The analysis of the expenditure recommendations for Brazil is based on the Letters of Intents, Technical Memoranda and country progress reports by the Brazilian government since 1998[3]. In general the policy plans regarding social expenditures state to be focused on education, health, pensions and 'cost-effective' social programs during and after restructuring as a result of the Latin American turbulent economies of 1990s (Letter of Intents 1998, 1999, 2000, 2001, 2002, 2003).

In 1998 the aim was to increase expenditure-saving and revenue-raising measures amounting in all to 3% of GDP for 1999. Saving on health, education and social protection by spreading expenditures over various areas was seen to be vital in combating the economic upheavals of the Latin American countries. This was to be accomplished through strict rules for the control of public expenditure and most social expenditure was to go to primary education and basic health core, specifically to promote the more efficient use and financing of health and education (particular at the higher levels) and to better target social expenditure to the poor. To this end the federal government was to minimise budget cuts on social expenditure programs that benefited the poor, while striving to improve their targeting and cost effectiveness (Letter of Intent, November 1998 and Technical Memorandum of Understanding, December 8 1998).

By 1999, the primary surplus was to increase from 0.6% in 1998 to 2.3% of 1999 and in order to maintain a surplus the government was to keep nominal expenditures on goods and services below the 1998 outcome. In setting budgetary priorities, the government intended to safeguard the programs targeted to the poor, and sought financial support from the WB and the IDB related to selected social safety net programs. As the aim was to keep increasing the primary surplus of the consolidated public sector, the target for 2000 was 3,25% of GDP, the government intended to continue to give priority to expenditures on education, health, and other cost-effective social programs, but emphasised an improved choice of expenditure priorities (Memorandum of Economic Policies, March 8 1999 and Memorandum of Economic Policies, July 2, 1999). By November of 1999, however, a memorandum was published ensuring once again, strict adherence to fiscal primary target whilst safeguarding expenditures on education and health, as well as on key social assistance programmes (Memorandum of Economic Policies and Technical Memorandum of Understanding, April 20 2000).

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3 Unfortunately no older documents are available.

A year later, primary expenditures (-1% of GDP) were stated to reflect in part the initial favourable impact of the first round of reforms of the social security system approved in 1998, as well as efforts to rationalise the public administration and prioritise public expenditure programmes. The Brazilian government tried to protect spending on education, health and targeted social programmes from expenditure restraint. But a new draft of new fiscal responsibility law covering all levels of government, setting limits on their indebtedness and expenditures and aiming to increase fiscal transparency, was introduced and supported by the World Bank and the IMF (CAS 2001; Memorandum of Economic Policies and Technical Memorandum of Understanding, April 20, 2000). The World Bank's CAS public notice for Brazil (2000) supported the policy plans and also stated the need for institutional strengthening of municipalities to deal with the management of urban problems. Both privatisation efforts and increased participation of private actors in the development of infrastructure in cities and states was advised to address the needs of new growth-targeted policies.

In 2001 the policy was to facilitate the further planned consolidation of the public finances, while pursuing the government's social agenda. A primary surplus equivalent to around 2% of GDP was to be maintained, while aiming to expand expenditure on education, health, minimum pensions, rural development as well as the creation of a R$3.1 bln/US$1.3 bln poverty-alleviation fund. This fund would focus on education-linked income support programs and on basic sanitation facilities for poor areas (Letter of Intent, Memorandum of Economic Policies and Technical Memorandum of Understanding, March 14 2001). The World Bank announced that by this increased focus on poverty-reduction in Brazil, 'Brazil is making significant advances in contributing to the International Development Goals' (CAS, 2001).

Moreover, a new framework was created to prioritise and evaluate all government spending and according to the World Bank this approach was to be very important for improving social spending. New targeted social programs for 2000-2002 were to direct spending to the poorest 14 micro-regions with the lowest Human Development Index. This 'Projecta Alvarado' was to be guided by two principles: improved poverty targeting of social programs at both the geographic and the household level and the improved coordination and integration of different social programs. Ineffective targeting and the uncoordinated implementation of programs to the same families would be solved.

The primary surplus at this time, however, reached 3.2% of period GDP, reflecting continued expenditure restraint. The states and municipalities posted a primary surplus of 1.1% 'in compliance with the fiscal responsibility law and the debt rescheduling agreements with the treasury' (Letter of Intent, Memorandum of Economic Policies and Technical Memorandum of Understanding, August 23 2001). Expenditure was once again to be restrained through 'expenditure management' such as had been the case between 2000-2002, though spending on priority social programmes was to be protected (CAS, 2001).

By June 2002, the Brazil government, however, started to disagree with the IMF on the categories of expenditure in the Letters of Intent: 'as part of the continuing dialog with the fund, we have in the past expressed our concern that including investment expenditure by commercially-run public enterprises under the performance criterion on the public sector primary balance does not recognise that investment expenditure creates valuable assets and does not have a negative impact on sustainability of the public finances' (Letter of Intent, Memorandum of Economic Policies and Technical Memorandum of Understanding, June 5 2002).

By August, revenues of the state oil company were lower due to lower international oil prices. As a result, a new budget execution decree was issued cutting R$4 billion of federal expenditures relative to the ceilings set in the budget execution decree issued on February 8, 2002. These expenditure cuts were to be aimed at compensating for an upward revision in other spending categories, including an increase in the projected deficit of the social security system by R$0.09 bln. Revenues had fallen by 3.5bln arising from the slower pace of economic growth. However, once again the aim was to increase the primary surplus target in 2002 by expenditure control and expected revenues.

With the incoming administration headed by Lula, the policy recommendations changed. Emphasis was still placed on fiscal discipline if there was to be any reorientation of expenditure. But the emphasis placed on the importance of maintaining low inflation to protect the real incomes of the poor was new. The new administration further highlighted the significance of further progress in the structural reform agenda, giving particular prominence to tax and pension reform (Letter of Intent, December 2 2002).

With the new administration, it was almost a year before any new policy plans for expenditure were published. In November 2003, the government announced that strong and socially equitable growth stood at the top of the government's economic agenda (CAS 2003; Letter of Intent, November 21 2003). The country was to return to growth rates 'consistent with Brazil's potential'. This required action on a number of fronts: improving the quality of expenditure in the budget, removing bureaucracy and trying to create a more just and efficient allocation of public resources. The recent budget rigidities had been forcing a small share of the budget to bear the brunt of any fiscal adjustment, often implying cuts in some of the most productive and growth-enhancing public expenditures (Letter of Intent, November 21 2003). Money was to be redirected to projects with the greatest social returns, though it was unclear what these were.

In 2004, the IFIs-Brazil relationship regarding taxes and expenditure guidelines has become a heated debate in Brazil. Brazilians are suggesting an alliance of sorts between middle-income countries in order to have the IFIs and financial markets reconsider the way that expenditures are considered in a country's primary account. The ministry of cities in Brazil is arguing that some of its social service expenditures should actually be treated as investments - ie, when calculating the federal budget, the surplus or deficit in the total matters for policymaking that is trying to move forward.

Region- or sector-specific expenditure?

As described above, the main expenditure programs in Brazil are education, health and cost-effective social programs such as rural funds and poverty-alleviation funds. Moreover, Brazil 'set course to cut expenditure costs by privatisation efforts in various of these sectors' (World Bank, 2000). Most of the suggestions related to expenditure in Brazil by the central governments are seen to be the states' responsibilities with decentralisation as the favoured strategy (CAS 2001, 2002). Many of the priority expenditure programmes are linked to a development strategy, centred on specific regional axes.

In 2001, specific rural development and poverty-alleviation funds were suggested that would focus on basic sanitation facilities for poor areas. At that same time, some states were furthering their privatisation efforts (Letter of Intent, Memorandum of Economic Policies and Technical Memorandum of Understanding, March 14 2001). With the incoming new administration in 2002, additional support to the poorest Brazilians was to be achieved by redirecting resources to 'projects with the greatest social returns'. No clear explanation which projects these may be nor what social returns were meant to be, was however given.

Thailand

Brazil was not the only country that experienced a turbulent economy during the late 1990s. In this section we focus on a different middle-income developing country and its expenditure policies in the Letters of Intents, Technical Memoranda and country progress reports. We focus on an analysis of the IFIS recommendations for Thai expenditure policies since 1997. The policy plans regarding social expenditures in Thailand differ slightly from the Brazilian ones and were focused on education, health, job-creation, infrastructure and expanding the social safety nets during and after the Asian financial crisis (Letter of Intents 1997, 1998, 1999).

However, even before the financial crisis that hit Asian economies, the targets for 1996-1997 had been to cut and restrain expenditure. During the height of the financial crisis, there were further suggestions to create additional expenditure measures if there were shortfalls from budgetary targets (Letter of Intent, August 14 1997). A main emphasis was on cuts to state-run enterprises, not social expenditures. By 1998 expenditure had been trimmed by 3,5% of GDP but expenditure for 1998 was US$2.1 bln more than planned in 1997: the social safety net had been expanded (and needed even more funding due to the displacement of many workers) and educational opportunities were to be enhanced with US$15 bln over three years.

These aims were to be accomplished via financial support for job-creation programmes, scholarships at private school, allowing tuition fees to be paid in instalments, increased subsidies for health-insurance, strengthening rural industrial development programmes through NGO's and developing new anti-poverty programmes through decentralisation (Letter of Intent, February 24 1998). Other policy recommendations during 1998 were to create a better targeted expenditure program. Infrastructure projects were seen to be a good way to alleviate bottlenecks, support employment in urban and rural areas and revise the expenditure program of state enterprises. Thus infrastructure was seen to 'an integral part of the government's efforts to cushion the impact of the recession on employment' (Letter of Intent, August 25 1998).

By 1999, a clear focus on the aims of the expenditure programme had been developed. Project implementation in the fields of infrastructure in both rural and urban sectors was seen as crucial, avoiding benefit schemes that could distort Thailand's labour market (Letter of Intent, March 23 1999). During 1999, Thailand's economy picked up (3-4% instead of forecasted 1%). On the policy side the priorities were to maintain a monetary stance and fiscal stimulus, including continued expenditure for the social safety net. For 1999-2000 Thailand even aimed to have a 5% public sector deficit to ensure enough stimulus to underpin continuing recovery.

The main sectors that were to be targeted via social expenditure were education, public health and transport (World Bank, 1999).

Fighting poverty is a high priority for the Thai Government. A Country-Development Partnership on Poverty (CDP-P) was set up in 2001-2002 with help of the World Bank. The CDP-P was to be aimed at supporting the Government's efforts to formulate and implement effective poverty reduction policies (World Bank, 2001). Decentralising expenditure policy was recommended though the ‘Thailand Social Monitor: Poverty and Public Policy’ (2001). This document stated that experience in other countries has shown that it is more effective to decentralise expenditure responsibility *before* decentralising resources. Empowering local communities to have a voice in the decisions that impact their daily lives could also lead to more accountable local government and even better provision of public services. There was also evidence that central governments are generally better at redistributing resources to poor provinces, than provinces are to poor areas. Thus for decentralisation to be an effective mechanism for making state institutions more responsive to the concerns of the poor, civil society would need to be engaged in the local decision-making and monitoring process.

Region- or sector-specific expenditure?

A main focus in the Thai policy documents is on the rural poor and thus rural development. The expenditure recommendations stated that this would be done via a rural industrial development program, new anti-poverty programs focusing on decentralisation, NGO’s and local participation. Urban development funds, social investment funds and infrastructure development were to help municipalities expand their investment programs (Letters of Intent 1998, 1999).

However, as Ahuja et al (1997), Chu et al (2000) and the World Bank (2001) state, Thailand’s high economic growth during the 1990s reduced poverty in general, but was regionally very unbalanced. Despite the increase in income inequality, government spending on education and health remained steady in the last two decades at about 19% of total expenditures for education and 7% for health respectively. What the effects have been of the expenditure recommendations over the last years of the 1990s for the entire country thus remains to be seen.

III. Contrasting recommendations for low- and middle-income countries

It is interesting to assess whether the recommendations by IFIS differ for the various stages of development. This is a difficult task as expenditure is defined in various ways in the different countries. Moreover, it is difficult to assess what has actually occurred in the countries after expenditure recommendations were announced (despite this being a comment in general, this was also not part of our aim within this paper). However, the marked lack of description of social expenditure targets or components for both low- and middle-income countries does not help the possible assessment of future developments. We attempt to relate the Eurodad findings to our own to assess whether IFIS expenditure policy recommendations are different for low- and middle-income developing countries.

The lower-income developing countries experienced a lack of flexibility in the supranational expenditure policy recommendations. The two middle-income countries had a little more flexibility and strength as can be seen from incoming president Lula opposing certain plans and redirecting policy plans for expenditure in Brazil. In Thailand, the government maintained a public deficit of 5% in the late 1990s to increase spending. It also maintained a fiscal stimulus to try and keep the financial crisis under control. This flexibility in our opinion was due to the increased power of the middle-income countries versus the lower income ones. This power has translated itself into more independence.

It is difficult to assess whether the policy recommendations have been implemented and what the results have been. One basic conclusion from analysing the policy plans and the rhetorical prose used in the Letters of Intent for our analysis and the PRGF's for the Eurodad analysis is that clear IFIs expenditure policy recommendations are firmly focused on fiscal thrift. Low- and middle-income developing countries have been advised over the years to focus on maintaining a low fiscal deficit, rather than on how the plans can actually be used to implement the changes called for. Simply cutting expenditure and not nurturing an effective tax system, however, undermines both the growth of and the struggle in the construction of effective state institutions. A circular relationship between institutions and growth, each being necessary for the other, is crucial.

A second point besides cutting expenditure and advising to impose expenditure-restraints through 'public expenditure management' was the clear call for privatisation efforts from the IFIs. The prevalence of privatisation as a structural condition was markedly high. In multiple instances, however, it was unclear what kind of privatisation programmes would be useful and what the aim would be of these shifts. From the above one can thus argue that there is a need for fiscal thrift not only to be met by reduced expenditure, but also by tax reform and improvement of the strategy for how the plans can actually be used to implement the changes called for.

IV. Policy implications and conclusions

While low-income developing countries have sought to engage in the PRSP process, they have often been overlooked. It is thus difficult for less powerful states to really challenge the IFIs where standard prescriptions are inappropriate. Middle-income developing countries like Brazil and Thailand, however, have – at least in their policy formulations – succeeded in prioritising some individual elements regarding expenditure plans.

Sadly, it seems likely that low-income developing countries will remain dependent on donors and campaigners that put pressure on the IFIs to actually implement policies that listen more to the countries. These policy plans should be focused on a combination of both fiscal thrift and more evidence of targeted social spending.

Donors, not least within the EU, should put pressure on the IFIs to actually implement policies that reflect country-specific situations. Campaigners such as Eurodad must continue to trace trends across the recommendations given by IFIs and compare these to the rhetoric produced by the institutions. It is important that not only are IFI programmes challenged on their declared aims but also on whether the conditions they attach to their loans actually match with the stated aims. The latter is particularly important in relation to the targeting of social expenditure where it is declared to be pro-poor. Campaigners must continue to demand that the IFIs follow through on their stated goal of increasing levels of country ownership and consider government or civil society calls for different expenditure patterns on an open basis, not simply as impediments to necessary fiscal thrift.

For IFIs, the analysis presented here suggests that there is a need for recommendations to be truly grounded in the ideas of country ownership and streamlined conditionality that have been embraced so enthusiastically in rhetoric. The move to a pro-poor focus is a good step but can only be commended if it supported by the specific advice given to low and middle-income countries. IFIs need to act with the awareness that if fiscal restraint is always put forward as the main goal of any poverty-reduction programme, there is a danger that the targeting of social expenditure will suffer.

More work is needed. First of all, further research is required into the IFIs' recommendations to middle-income countries since there is a paucity of research compared to that done on low-income countries. Such a broader research agenda would be particularly valuable as it highlights another area that needs further research: the effects of IFI recommendations in different countries, especially in the sector of social expenditure. Questions arise over the benefits and costs to development of differences in countries' bargaining positions. Additionally, while it is important to expand the analysis done of fiscal expenditure recommendations and their implementation, it is essential that the research community begin to pay more attention to tax structure. While tax reform has serious consequences for fiscal balance and thus the major focus of IMF programs, it also has an important impact on income distribution and effective poverty reduction.

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About the project

This OCGG Economy Analysis is part of a series of publications stemming from the OCGG Economy Section's Development and Fiscal Policy project, by early career-stage researchers currently studying and working at leading universities around the world. The central theme is the reassessment of fiscal policy priorities in development.

The project seeks to assess the prospects for poorer countries moving towards stable and sustainable long-term paths on which governments are able to pursue poverty reduction and broader human development goals through the exercise of fiscal policy. Advice for bilateral and multilateral donors will focus on the nature of development assistance provided and on the policy priorities pursued.

The project combines different approaches, leading to research that:

- assesses the experience of specific countries (from Mexican social policy to Kenyan tax administration, from Argentinean inequality to Zambia's use of aid revenues);

- considers the drivers of policy change at national and international level, including a careful case-study assessment of IFI recommendations for fiscal policy made to countries at different levels of income;

- offers new theoretical perspectives (e.g. on political inequality and inflation as a tax, and the decomposition of poverty changes into their growth and inequality components); and

- carries out analysis on newly assembled data (e.g. on the components and nature of redistribution in rich countries).

All work, both advice and underlying research, is made available via our website, at

www.oxfordgovernance.org

The OCGG Economy Section will publish an issue of the Oxford Journal on Good Governance, which will be devoted to the themes of this project. It will include contributions from high-profile external contributors from academia and policy, as well as showcasing OCGG policy advice. Since all of the OCGG's operations – including research, advice and publications – are funded by donation, project sponsors are sought. To get involved with the project, visit the website or contact the section director Alex Cobham at alex.cobham@oxfordgovernance.org.

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