



HIGHLIGHTS OF USAID WORKSHOP:  
PROMOTING ECONOMIC GROWTH IN A NEW ERA  
JUNE 28 – JULY 2 2004

**USAID, the IMF, and Fiscal Crises for the Poor**

The purpose of this session was to explore the need and opportunities for USAID to help host countries make enlightened choices that ease the social pain of episodes of fiscal contraction.

Alex Segura-Ubiergo, Economist in the IMF's Fiscal Affairs Department, reported on a study that he and colleagues in the Fund's Independent Evaluation Office had published in 2003 on the IMF's handling of revenue and expenditure adjustments by countries which had borrowed from the IMF. Their cross-section analysis of 70 countries did not indicate that the IMF-recommended programs were "too contractionary," in general, nor that aggregate government spending on health and education was disproportionately affected. Indeed, the recommended programs often (but not when the imbalance was quite large) provided for an increase in government expenditures -- including those for health and education -- compared to the preceding period.

However, the team's in-depth analysis of 15 country episodes showed that critical areas of expenditure most important for the poor were sometimes cut excessively, relative to the ministries' wages and salaries. For example, in Ecuador during the crisis of 1999-2000, the public health system had to cut back sharply on the dispensing of prescriptions and other amenities (e.g., meals for hospital patients). Such problems with the composition of government spending and their impact on the social safety net demonstrated -- according to the IMF-IEO Report -- the need for the IMF, in its negotiations over stabilization programs, to rely more upon sector experts from the World Bank and other donors who have a more detailed understanding of priorities and policy options in, especially, the health and education sectors.

Robert Aten, Senior Economist in USAID's Bureau for Asia and the Near East, provided a number of illustrations from the Indonesia crisis of 1997-99 that show how USAID may sometimes be able to modify existing assistance activities and help to alleviate the hardships for the poor that result from a severe cyclical downturn. After the severe depreciation of the rupiah, and the resultant steep rise in prices of "tradable goods," two effects were to drive up sharply the local costs of staple food and of imported pharmaceuticals. These were areas where existing USAID programs could be augmented and/or re-directed to help cushion the adverse impact on the poor. Indonesia's fiscal crisis also proved to be a catalyst for reform of poorly targeted subsidies, such as that for gasoline -- where foreign experts were able to assist in strengthening the case made by the local advocates of reform.

Mark Gallagher, from USAID's Fiscal Reform project, commented that the IMF should more regularly consult with the bilateral donors -- especially USAID and DfID. Compared to the World Bank, USAID and DfID are "nimble donors" that will generally be able to respond more quickly to bring in experts and materials to help assess and correct short-term problems that face the poor during macro stabilization crises.