Changing IMF Policies
to Get More Doctors, Nurses and Teachers Hired in Developing Countries

Mounting evidence in recent years suggests that the economic policies promoted and enforced by the International Monetary Fund (IMF) may be preventing developing countries from being able to spend more in their national budgets, with important consequences for health and education budgets being constrained at unnecessarily low levels at a time when major increases are needed.

According to the World Health Organization (WHO), 57 countries, most of them in Africa and Asia, face a severe health workforce crisis. WHO estimates that at least 2.4 million health professionals and 1.9 million health workers, or a total of 4.3 million health workers, are needed to fill the gap. Without prompt action, the shortage will worsen. Health workers are inequitably distributed throughout the world, with severe imbalances between developed and developing countries. This global workforce shortage is made even worse by imbalances within countries, with the greatest deficits in peri-urban and rural areas, and with misallocations between public and private/NGO/faith-based sectors. Sub-Saharan Africa faces the greatest challenges: while it has 11 percent of the world's population and 24 percent of the global burden of disease, it has only 3 percent of the world's health workers.

Regarding the global shortage of professionally-trained school teachers, UNESCO's Institute of Statistics estimated in 2006 that globally, to get all children into school in class sizes of under 40 pupils, 18 million new teachers will be required. Sub-Saharan Africa alone will require a 68% increase in primary school teachers, from 2.3 million to 4 million to meet this pupil teacher ratio. Meeting the 40 to 1 teacher-pupil ratio is important because a larger class size negatively impacts the quality of education.

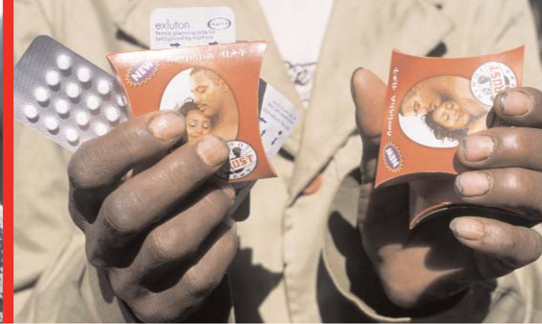
These additional doctors, nurses and teachers cannot be hired under unnecessarily restrictive fiscal policies (deficit-reduction targets) and monetary policies (inflation-reduction targets) attached as binding conditions on International Monetary Fund loan programs.

The Importance of the IMF

The IMF was created in the 1940s after World War II to help finance the rebuilding of Europe and to provide short-term loans to countries that were importing more than they were exporting. However, in the 1980s, the Reagan administration in the US and the Thatcher government in the UK led a sea change in the way economics is understood, and introduced a whole new set of free market and "free trade" policies into the international foreign aid system by attaching such economic policy changes as conditions on foreign aid to developing countries. At the IMF in particular, part of this major change was the introduction of "monetarist" policies, which prioritized extremely low inflation and reducing or eliminating government deficits over other goals such as higher employment, GDP growth and public investment. While these policies were ostensibly designed to force governments into tackling the huge debt crisis and macroeconomic instability afflicting many developing countries at the time, today these policies are undermining the ability of poor countries to scale-up public spending to fight HIV/AIDS and other pressing health needs and to achieve the Millennium Development Goals (MDGs) for health and education.

The immediate consequences of the IMF policies in the 1980s and 1990s were steep layoffs of personnel across all the public sectors, including public health systems. The lasting impacts have prevented countries from being able to make the necessary long-term capital investments in the underlying infrastructure of the public health systems. Public investment as a percent of GDP has been chronically under-funded in many countries over many years, leading to dilapidated public health facilities, weakened health systems, and an insufficient number of health workers across the developing world today. The IMF's restrictive spending policies prevent countries both from being able to absorb and spend more foreign aid and from generating more of their own resources domestically.

End poverty. Together.



The IMF's "Signal Effect" to Other Aid Donors

Over these years, the IMF has amassed tremendous power for itself as the final arbiter of what supposedly constitutes appropriate policies for "macroeconomic stability," and as a consequence, most bilateral and multilateral lenders and aid donors look to the IMF for its "red light/green light" signal before giving foreign aid, loans or debt cancellation to developing countries. In this way, the IMF has come to play the role of the head of a foreign aid cartel, in which most other foreign aid donors have abdicated their own individual ability to assess the economic policies of their borrowers. Although the UK has suggested it will not only look to the IMF signal before giving bilateral aid, its representative to the IMF Executive Board still supports IMF policies.

Moreover, the officials in many finance ministries in developing countries have been trained in the same economic theories as those promoted by the IMF, and ascribe to the same policies that emphasize low inflation and low deficits over the higher levels of public investment needed for a healthy and educated population to generate sustained economic growth and shared prosperity.

> **"IMF policies present massive obstacles for poor countries trying to employ more teachers and health workers...While the IMF is right that countries should manage their economies carefully, its overly rigid stance is incompatible with achieving the Millennium Development Goals on health [and] education..."** Oxfam International

The IMF's Policies Are Unnecessarily Restrictive

A research report by the US Congress explained there is a "substantial gray area" between those fiscal and monetary policies that may be considered too austere, resulting in economic stagnation, and those that cause macroeconomic instability. And while no one wants policies that are too loose and can lead to overspending, hyperinflation and instability, the report warned, "Policies that are overly concerned with macroeconomic stability may turn out to be too austere, lowering economic growth from its optimal level and impeding progress on poverty reduction."

Presumably, one goal of including the macroeconomic framework within the national dialogue with NGOs for drafting Poverty Reduction Strategy Papers (PRSPs) was to allow other policy options within this "gray area" to be fully explored to establish an effective mix of pro-growth and pro-health policies consistent with the medium-term goals of the country. However, this has not been the case. Not only is there mounting evidence in the empirical economics literature that the IMF's policies sit at the austere end of the gray area, but such policy decisions have never been opened to NGOs or broader public stakeholders. Usually the IMF staff set such policies with finance ministry officials behind closed doors.

A 2007 study that examined at the impact of IMF policies on health spending in low-income countries, led by the Washington-based Center for Global Development, found that, "The evidence suggests that IMF-supported fiscal programs have often been too conservative or risk-averse. In particular, the IMF has not done enough to explore more expansionary, but still feasible, options for higher public spending." And on monetary policy the report noted, "Empirical evidence does not justify pushing inflation to these levels in low-income countries." A similar recent study of IMF inflation-reduction policies by the University of Massachusetts, Amherst, found, "There is no justification for inflation-targeting policies as they are currently being practiced throughout the middle- and low-income countries." And most recently, the House Financial Services Committee of the US Congress weighed in on this issue in a November 2007 letter to the IMF, saying: "We are concerned by the IMF's adherence to overly-rigid macroeconomic targets" in low-income countries, and, "It is particularly troubling to us that the IMF's policy positions do not reflect any consensus view among economists on appropriate inflation targets."

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> House Financial Services Committee, US Congress

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IMF Policies Can Block the Spending of Donor Aid

A 2007 report by the IMF's Independent Evaluation Office (IEO) on "The IMF and Aid to Sub-Saharan Africa," examined IMF loan programs to 29 Sub-Saharan African countries between 1999-2005 found that 37 percent of all annual aid increases to these countries in these years was diverted into building international currency reserve levels and that another 37% was devoted to debt repayment. That left and only about $2.70 of every $10 in annual aid increases for actual spending on health, education, infrastructure, or other development needs. So-called weak performers (those with inflation above 5% and "low" foreign currency reserves) on average spent only of 15% of new aid. Having so much of new aid increases not being spent was certainly not the intention of the donors, or citizens in donor countries. According to the IEO report, the "main drivers" in decisions to curtail spending of the aid was the IMF's insistence on very low levels for inflation, its excessive concerns about the volatility of aid, and its desire for ever higher currency reserves to protect against economic "shocks."

As part of the larger context for the IMF's tight monetary policies, one of the major overarching findings of the IEO report was that the IMF Executive Board and senior management were never really enthusiastic about the emphasis placed by donors on "poverty reduction" or the new efforts to scale-up aid and spending for the MDGs over the last several years. Without strong internal leadership directing any real policy changes in this regard, and without wide-spread publicity about pro-spending, pro-growth policy changes, the IEO report found that staff simply reverted to prioritizing macroeconomic stability over other goals. The important implication of this finding for aid advocates is that there is a contradiction happening within the leading donor governments between enabling a "scaling up environment" on the one hand while enforcing rigid macroeconomic stability and spending restraint on the other.

A New York Times editorial appropriately summarized the current contradiction in donor policies: "There is a desperate need for greater policy coherence in a period when many national governments, including Washington, are sensibly exhorting African governments to spend more on primary health care and education while international financial institutions largely controlled by those same Western governments have been pressing African countries to shrink their government payrolls, including teachers and health care workers."

Wage Bill Ceilings Cause Alarm

In recent years, the IMF felt the need to suppress government spending through the use of so-called "public sector wage bill ceilings," or caps on the amount of money used for paying the wages of public sector employees. Such wage bill ceilings have interfered with countries' ability to educate, hire and retain the numbers of doctors, nurses, healthcare workers and teachers needed to fight HIV/AIDS and achieve the MDG health goals or to train younger generations. For example, such a policy in Kenya led to several thousands of professionally trained nurses remaining unemployed over many years. International public pressure forced the IMF into retreating somewhat on its wage bill ceiling policy in July 2007, but the IMF still reserves the right to impose such caps, while promising to do so less often in the future. However, the wage bill ceilings are merely a symptom of the deeper problem arising from unnecessarily restrictive fiscal and monetary policies: chronically insufficient public spending and under-investment in human capital development and preservation.

> **"The IMF has not done enough to explore more expansionary, but still feasible, options for higher public spending."** Center for Global Development

Debt Relief Is Not Enough

Although the rich countries have provided some debt cancellation under the Heavily-Indebted Poor Countries (HIPC) Initiative and the more recent Multilateral Debt Relief Initiative (MDRI), too little debt cancellation has been made available for too few countries in need. Impoverished countries that have benefited from initial debt cancellation are challenged to make use of the savings because of the continuing restrictive policies that still limit spending. Not only must countries remain "on track" with their IMF programs in order to access debt cancellation, but even afterwards they must continue to comply with IMF policies to access additional donor aid. Concerns about this problem were well exemplified in a recent report on Zambia by the United Nations Development Program's International Poverty Centre, "Does Debt Relief Increase Fiscal Space in Zambia? The MDG Implications," which found that even after receiving bilateral and multilateral debt cancellation, Zambia will still not be able to significantly scale-up public spending or investment because of the continuing demands for excessively tight fiscal and monetary policies in its IMF loan arrangements.

“There is a desperate need for greater policy coherence...” THE NEW YORK TIMES

Take Action!

1. Demand that the IMF change and widely publicize revised macroeconomic restraint policies

Every time the IMF’s macroeconomic policies are challenged, it responds that “we are addressing that.” The truth is that the IMF has not explicitly repudiated its overly restrictive inflation and deficit targets, nor has it widely publicized new found flexibilities for health and education spending. Not only must the IMF reverse its anti-growth, anti-health, and anti-education policies, it must publicize any new policy flexibilities widely to Ministries of Finance and to its own staff.

2. Demand that other policy options for increased public spending be fully vetted and explored

Health, education and HIV/AIDS advocates should work together with macroeconomists to learn about the current policies to which the IMF and many finance ministries adhere, their harmful impacts on constraining education and health spending, the existence of more expansionary spending policy options, and what such alternative policies could mean for increasing public health and education investments in developing countries. Each of the alternative policy options will have its own short-term and long-term costs and benefits for countries, and advocates should demand that all of these should be fully explored and considered.

3. Demand greater public stakeholder involvement in such explorations of alternative spending options

Health, education and HIV/AIDS advocates should demand that NGOs and other key stakeholders such as the education and health ministry staff, key legislative committee members, labor unions and even the domestic media be allowed to participate in such in-depth explorations of alternative policy options for increased public spending.

4. Call on your Government to raise this issue through the Executive Board of the IMF, which approves the IMF loan programs for borrowing countries

Advocates should insist that the policies first introduced over 20 years ago be revisited and changed to enable countries to meet current health and education imperatives.

Contact **Rick.Rowden@actionaid.org** for the latest research and analysis on these issues or for information about ActionAid’s Multi-Country Economic Literacy and Advocacy Project (“The IMF Project”), which will include 4 sets of introductory Macroeconomic Literacy Trainings and a series of national advocacy initiatives over 2 years (2008-2009) for health, education, HIV/AIDS and women’s rights advocacy organizations in 4 countries: Kenya, Sierra Leone, Malawi and the United States.

CAPTIONS: Cover and Back right: Mozambique (photographer Jenny Matthews); **Inside left:** Kenya, Patients waiting at Lugumek dispensary (photographer Liba Taylor); **Inside middle:** Ethiopia, A community-based outreach health workers shows a range of contraceptives (photographer Jenny Matthews); **Inside right:** Ethiopia, Nurse Mashresha Legesse giving medical advice to a patient at the Health Post (photographer Liba Taylor); **Back left:** Ethiopia, Tilahun, one of the community-based outreach health workers telling people about contraception at the weekly market (photographer Jenny Matthews); **Back middle:** Kenya, Community nurse Leah Mitei giving injection to young child at Lugumek dispensary (photographer Liba Taylor)