

Over 120 International NGOs Call On IMF to Change Unnecessarily-Restrictive Fiscal and Monetary Policies to Enable Significant Increases in Public Spending on HIV/AIDS, Health and Education

October 1, 2007

Mr. Dominique Strauss-Kahn

Managing Director, International Monetary Fund

700 19th St. NW,

Washington, DC 20431

Dear Mr. Strauss-Kahn,

In the context of the significant global campaign to increase foreign aid to achieve the Millennium Development Goals (MDGs), and achieve universal access to HIV treatment, care and prevention, the undersigned civil society organizations were alarmed to find that the April 2007 report by the International Monetary Fund's Independent Evaluation Office (IEO), "The IMF and Aid to Sub-Saharan Africa," confirms the long standing claims that IMF policies undermine developing nations' ability to increase health and education spending. To date the IMF's response to this finding has not been satisfactory.

During the first 100 days of your leadership at the IMF, we call on you to take the following steps to enable impoverished nations to direct sufficient resources to meet pressing human needs.

1. The IEO report finds as much as 74% of additional foreign aid to 29 countries in sub-Saharan Africa between 1999-2005 has been diverted from its intended purposes and allocated to domestic debt payment and international currency reserves because of IMF policies regulating macroeconomic and monetary policies. Citizens in donor and recipient countries never meant for so much of the annual aid increases to go unspent. **The IMF must change these policies and must not stand in the way of increased spending on health, HIV/AIDS and education.**
2. The IEO report concluded that aid spending was curtailed due to IMF insistence on specific deficit-reduction and inflation-reduction targets which impact the size of the overall national budget. These IMF policies are unnecessarily restrictive and prevent increased public spending, particularly for health and education. **The IMF must not stand in the way of policy makers in borrowing countries exploring and adopting more expansive fiscal and monetary policy options.**
3. Budget and wage bill ceilings undermine impoverished countries' ability to provide adequate salaries for health and education workers, hire additional needed health workers and teachers and scale up and improve the quality of the health and education sectors. **The IMF must publicly state that it will cease and desist with its demands for wage bill ceilings.**

4. Impoverished countries that have benefited from initial debt cancellation are challenged to make use of the savings because restrictive IMF policies limit spending. Further, countries that continue to strive towards debt cancellation are compelled to implement these harmful policies in order to complete the Heavily Indebted Poor Country (HIPC) initiative. **The IMF must provide immediate debt cancellation for all impoverished nations without harmful and unnecessarily restrictive policy conditions attached.**

We note that IMF staff have responded to some of these concerns in two policy papers from June 2007 (available at <http://www.imf.org/external/np/pp/2007/eng/071907.htm>), and that the IMF Executive Board has responded to these papers. In these documents, the IMF commits to some changes, including increased fiscal and monetary flexibility with an overarching purpose of maintaining macroeconomic stability. However, this response is unsatisfactory; the IMF does not address either the parameters of alternative policies or how “stability” will be defined.

In the preparation, presentation, and democratic discussion of alternative pro-health, pro-education, and pro-development scenarios, the IMF must ensure that there is broad consultation and public debate among all stakeholders, including key legislative committees, civil society, health and education officials, and independent economists, in which the short and long term impacts of more expansionary fiscal and monetary options are weighed *before* official decisions are taken.

We look forward to your reply to this request, and to further discussion on these issues.

Sincerely,

Act Up-Paris, France
ActionAid International
Advocates for Youth, United States
Africa Action, United States
African Forum on Alternatives, Senegal
African Services Committee, United States
AGAGES MANAGEMENT CONSULTANTS/CAMEROUN
Agency for Cooperation and Research in Development (ACORD), Kenya
Aids Fonds the Netherlands
AIDS Project Los Angeles, United States
American Friends Service Committee, United States
American Jewish World Service, United States
American Medical Student Association, United States
Asia Pacific Network of People Living with HIV/AIDS (APN+), Thailand
Association Camerounaise pour L'enfance et la Femme en Détresse, Cameroon
Association des Conseillers en Economie Sociale et Familiale du Camerou, Cameroon
Bharatiya Krishak Samaj, India
Board of Church and Society-Philippines Central Conference, Philippines
Board of Church and Society-Southwest Philippines Annual Conference, Philippines
Bretton Woods Project, UK
Cellules Associatives des Femmes Actives Pour le Bien Etre;CAFAB, Cameroon
Cameroon Education For All Network, Cameroon
Campagna per la Riforma della Banca Mondiale, Italy
Caribbean Association for Feminist Research & Action/Trinidad & Tobago (CAFRA T&T)
Caucus Philippines, Philippines
Center of Concern, United States

Centre for Civil Society Economic Justice Project (Univ. of KwaZulu-Natal) South Africa
 Centre for Economic Governance and AIDS in Africa (CEGAA), South Africa
 Centre for Human Rights and Rehabilitation (CHRR), Lilongwe, MALAWI
 Christ Soldiers Foundation, Ghana
 Church World Service, United States
 CIVICUS: World Alliance for Citizen Participation
 Coalition for Health Promotion & Social Development (HEPS-Uganda), Kampala, Uganda.
 Coalition of HIV Infected and Affected Community Service Organization (CHIACSOK)
 Columban Justice, Peace, and Integrity of Creation Office, United States
 Community Working Group On Health (CWGH), Zimbabwe
 Congregation of Our Lady of Charity of the Good Shepherd. German Province
 Daughters of Mumbi Global Resource Center, Kenya
 Department of Development Studies, SOAS, University of London, UK
 Diakonia, Sweden
 Essential Action, United States
 European AIDS Treatment Group (EATG), Brussels, Belgium
 European Network on Debt and Development
 Foreign Policy In Focus, United States
 Franciscan General Office for Justice, Peace & the Integrity of Creation; Rome, Italy
 Gender Action, United States
 Ghana Trade and Livelihoods Coalition (GTLC)
 Global Action for Children, United States
 Global AIDS Alliance, United States
 Globalization Watch Hiroshima, Japan
 Good Shepherd Sisters, Ethiopia
 Halifax Initiative Coalition, Canada
 Health Alliance International
 Health and Rights Education Programme (HREP), Malawi
 Health GAP, United States
 Health Society, Pakistan
 Health Unlimited
 Housing Works, Inc., United States
 IBON Foundation, Inc. Philippines
 Independent Social Scientists' Alliance of Turkey
 Indonesian Christian Association for Health Service, (PELKESI)
 Institute for Social Development and Policy Research (ISDPR)
 Interagency Coalition on AIDS and Development (ICAD) Canada
 International Network for Justice, Peace, and Integrity of Creation, School Sisters of Notre
 Dame, Rome, Italy
 International Rights Advocates
 Jubilee Debt Campaign, UK
 Jubilee USA Network, United States
 Kenya Treatment Access Movement-KETAM
 Labour, Health and Human Rights Development Centre, Nigeria
 Law & Society Trust, Colombo, Sri Lanka
 Manila Episcopal Area Innovative Ministries Partnership Program-(Migrant & Indigenous
 People), Philippines
 Maryknoll Office for Global Concerns, United States
 McGill Global AIDS Coalition, Canada
 Médecins Sans Frontières, Belgium
 Medical Mission Sisters

Medical Mission Sisters, Alliance for Justice
Mission Effectiveness Office, School Sisters of Notre Dame, St. Louis, MO, United States
Missionaries of Africa (White Fathers), Rome (Italy)
Missionary Oblates of Mary Immaculate, Justice, Peace/Integrity of Creation Office, US
National Association of People with AIDS, United States
National Organization of Physical and Sport Education Teachers (N.O.P.S.E.T), Cameroon
National Union of Students of the Philippines (NUSP)
NETWORK: A National Catholic Social Justice Lobby, United States
Networkers SouthNorth, Norway
New Rules for Global Finance Coalition, United States
Pan Africanist Congress of Azania, South Africa
Pan African Treatment Access Movement (PATAM)
Partners In Health, Boston MA, United States
Pax Christi International
People's Health Movement (PHM) Global Secretariat office in Cairo, Egypt
Physicians for Human Rights, United States
Polish Province of School Sisters of Notre Dame
Presbyterian Church, USA, Washington Office
Priority Africa Network, Oakland, CA, United States
Rencontre Africaine pour la Défense des Droits de l'Homme (RADDHO), Senegal
RESULTS Australia
RESULTS Canada
RESULTS, United States
School Sisters of Notre Dame North American Major Area Coordinating Center
Sisters of the German Province, Congregation of Our Lady of Charity of the Good Shepherd (Good Shepherd Sisters), Germany
Sisters of the Good Shepherd in Italy and Malta
Sisters of the Good Shepherd, Geneva, Switzerland
Sisters of the Holy Cross, Notre Dame, Indiana, United States
Sisters of the Presentation of Mary, Italy
Social Enterprise Development Foundation of West Africa (SEND)
Soeur du Bon Pasteur, Madagascar
Solidarity Africa Network, Kenya
Southern and Eastern African Trade, Information and Negotiations Institute (SEATINI)
STOP AIDS NOW!, The Netherlands
Stop AIDS Alliance Belgium
Student Global AIDS Campaign, United States
Sugar Workers Solidarity Network, Philippines
The Leadership Council, Sisters, Servants of the Immaculate Heart of Mary, Monroe, Michigan, United States
The Regional Network for Equity in Health in East and Southern Africa (EQUINET)
The Sexuality Information and Education Council of the United States (SIECUS)
The Sisters of Notre Dame of Chardon, Ohio, United States
TransAfrica Forum, United States
Uganda Fisheries and Fish Conservation Association (UFFCA)
Uganda Treatment Access Movement
United Methodist Church, General Board of Church and Society, United States
Victoria International Development Education Association (VIDEA)
VSO international
World Economy, Ecology & Development (WEED), Germany
Youth Action Volunteers, Tanzania

Background Memo:

NGOs' Continuing Concern about IMF Policies

The April 2007 IEO Report: Civil society advocates of scaled-up donor aid to fight HIV/AIDS and achieve the Millennium Development Goals (MDGs) were alarmed by certain findings of the April 2007 report by the IMF's Independent Evaluation Office (IEO), "The IMF and Aid to Sub-Saharan Africa,"¹ that showed considerable levels of annual aid increases were not programmed to be spent or absorbed as intended, but instead were diverted and redirected by the IMF into building international currency reserves or paying down domestic debt in order to achieve the IMF's preferred fiscal deficit and inflation reduction targets. The IEO report examined the levels at which the IMF programmed the spending of the annual increases in donor aid for 29 Sub-Saharan African countries during 1999-2005. It found that only 37 percent of the donor aid meant to be "absorbed" actually ended up being spent on needed imports as intended by donors, while 63 percent was redirected by the IMF into building the levels of foreign currency reserves at the central banks (Figure 2.2, p.9.). The report also showed that countries considered to already have sufficient currency reserves were allowed to spend their annual aid increases only if they had achieved the IMF's preferred low levels for inflation in the 5-7 percent range: because so few of the countries were able to achieve these targets, the report found that, on average, only 28 percent of all donor aid for spending had actually been programmed to be spent as intended by donors, while on average, 72 percent was redirected by the IMF into either paying down domestic debt or building foreign currency reserves (Figure 2.3, p.9). *Citizens in the donor countries certainly never meant for so much of their annual aid increases to go unspent.*

Other Recent Reports: Concerns about the impacts of IMF restrictive fiscal and monetary policies have recently been expressed in other new reports by the Washington DC-based Center for Global Development,² which examined IMF policy impacts on health efforts, and by ActionAid's International Education Team,³ which examined IMF policy impacts on education. Both reports found that the IMF's policies were unnecessarily restrictive and not facilitating a "scaling-up agenda" for aid, public spending and investment in order to fight HIV/AIDS and meet the MDGs. Both reports found that wage bill ceilings could be harmful to education and health personnel needs. The reports echoed calls by the IMF's IEO report that a broader array of fiscal and monetary policy options should be made available to policy makers in borrowing countries.

Newest IMF Policy Papers and IMF Board Response: The IMF staff responded to these issues and concerns in 2 recent policy papers in June 2007, "Aid Inflows—The Role of the Fund and

¹ "The IMF and Aid to Sub-Saharan Africa" <http://www.ieo-imf.org/eval/complete/pdf/03122007/report.pdf>

² "Does the IMF Constrain Health Spending in Poor Countries? Evidence and an Agenda for Action," http://www.cgdev.org/doc/IMF/IMF_Report.pdf

³ "Confronting the Contradictions: The IMF, wage bill caps and the case for teachers": http://www.actionaidusa.org/imf_africa.php
--for IMF critique of report: <http://www.imf.org/external/np/vc/2007/051707.htm>
--for ActionAid rebuttal to the IMF: <http://www.actionaid.org/main.aspx?PageID=652>

Operational Issues for Program Design,”⁴ and “Fiscal Policy Response to Scaled-Up Aid,”⁵ and that the IMF Executive Board responded to these papers, as described in the July 19, 2007 Public Information Notice (PIN No. 07/83).⁶

However, civil society advocates have many remaining concerns about the inadequacy of the 2 new IMF policy papers and the IMF Executive Board response, and still seek clarification on the following 9 items:

1. **The IMF’s Specific Deficit-Reduction and Inflation-Reduction Targets:** Because it is the specific deficit-reduction and inflation-reduction targets and their impacts on the size of overall national budgets that are ultimately at issue, civil society advocates acknowledge that even if formal wage bill ceilings are no longer used in PRGFs or PSIs⁷, this may not solve the problems of insufficient health or education budgets. Even without formalized wage bill ceilings, the excessively tight fiscal (deficit-reduction) and monetary (inflation-reduction) policies will still keep overall national budgets constrained at unnecessarily low levels, with the consequential impacts on sector budgets and wages for personnel. The PIN’s last paragraph confirms that little has changed, and that wage bill ceilings (for overall public sector wages or for wage ceilings of specific sectors) will continue to be based on undefined “macroeconomic considerations” rather than be based on any balancing with sectoral needs or priorities. However, each time “alternative policy scenarios” are mentioned in the PIN, it is qualified by stating the need to first maintain or preserve macroeconomic stability, yet never is any definition of “macroeconomic stability” provided. Until the IMF’s specific definition of “macroeconomic stability” is clarified, the IMF’s claims of greater flexibility in the future will mean very little. Therefore, the IMF must provide a detailed description of its definition of “macroeconomic stability” and specifically which deficit and inflation rates constitute “stability” or “instability”, and the economics literature upon which the IMF’s assessments are based.
2. **The Wage Bill Ceilings:** The PIN about the IMF Board response to the 2 IMF policy papers stated: "Directors called for staff reports to justify in a transparent manner the use of wage bill ceilings and for a reassessment of their need and rationale at the time of program reviews." (PIN and Aid Flows paper, page 38). The IMF must clarify how exactly the future use of wage bill ceilings will be justified, and what will constitute a “transparent manner”.
3. **The Specific Number of Wage Bill Ceilings:** In the Aid flows paper (pg. 38, para 67) it is claimed that as of June 2007 only 7 of 29 PRGF arrangements included ceilings, of which 4 were performance criteria, but later claims only 3 PRGFs currently have ceilings. The IMF must clarify which is the correct information and to have publicly available the analysis or report used for this assessment. The IMF must clarify exactly how it assesses the impact of budget ceilings on education/health goals.

⁴ “Aid Inflows—The Role of the Fund and Operational Issues for Program Design,” <http://www.imf.org/external/np/pp/2007/eng/061407.pdf>

⁵ “Fiscal Policy Response to Scaled-Up Aid,” <http://www.imf.org/external/np/pp/2007/eng/060507.pdf>

⁶ “IMF Executive Board Discusses Operational Implications of Aid Inflows for IMF Advice and Program Design in Low-Income Countries,” <http://www.imf.org/external/np/sec/pn/2007/pn0783.htm>

⁷ PRGFs (Poverty Reduction and Growth Facilities) are the lending arrangements between the IMF and low-income borrowing countries; PSIs (Policy Support Instruments) are similar policy arrangements between the IMF and low-income countries, but do not include any money or lines of credit.

4. **On “Prudent” Buffer Reserves and Domestic Debt Reduction:** The Managing Director continued to prioritize a policy of building up external reserve buffers, curbing “excessive” debt, smoothing expenditures and maintaining aid buffers, and even inflation reduction for countries that are establishing macroeconomic stability. (IEO Report, p. 80). Many of these same countries are the ones that most need significant new investments in human resources for health and enhanced health sector capacity. We call on the IMF to clarify whether and how it will allow slower increases in foreign currency reserves and aid buffer reserves and less debt reduction in exchange for greater absorption and spending of aid even for not-yet-mature stabilizers.
5. **Productive and Non-inflationary “Domestic” Spending:** In multiple places, the IMF expresses skepticism about the desirability of spending aid on domestic goods and services and human resources, stating a preference for absorption (increased imports), which is presumed to be non-inflationary. (e.g., AID Flows, p. 19-20). In this regard, the IMF assumes that there is no spare or underutilized productive human capacity and no underutilized domestic capacity to produce additional goods and services in the health sector or otherwise. We call on the IMF to clarify and justify why there cannot be non-inflationary and productive domestic spending as well as non-inflationary absorption via imports.
6. **Stability vs. Growth:** The relevant policy documents from the IMF continue to prioritize overly conservative stability conditionalities over more aggressive pro-growth policies, including investments in health and education sectors critical to the creation and preservation of human capital. The countries studied in the IEO Report have all suffered through protracted periods of stagnation and continue to be constrained in considering policy options for a more expansive fiscal policy in priority sectors like health, education, and economic infrastructure. We call on the IMF to clarify whether and how it will in fact convert to a more pro-growth agenda.
7. **The Link between Training and Capacity to Absorb More Aid:** The study by ActionAid International’s Education Team noted earlier budget constraints had led to cutbacks on expenditure for teacher-training and teacher colleges in both Mozambique and Malawi, which in turn, later imperiled their ability to expand their capacity to absorb and spend donor aid in the education sectors. This problem was also echoed in the IMF’s new Fiscal Policy paper: “The ability to absorb aid at the sectoral level may be limited in the short term. The country may not have sufficient teachers or health workers to expand service provision. In this regard, some LICs [low-income countries] are considering innovative approaches to overcome these supply-side constraints, such as Ethiopia’s program to rapidly train and deploy semi-skilled workers to address basic healthcare needs.” (Page 9, para 14). However, the IMF takes no responsibility for having created prior capacity constraints in the first place, given the chronically insufficient or decreased funding on teachers and training colleges. It continues to support insufficient and shortened training programs, which have been proven to lead to declining quality of education and health care. The IMF must clarify how it will enable borrowing countries to substantially scale-up investment and spending on training for education and health personnel, so that countries’ capacity to absorb and spend higher levels of donor aid in the future can be better planned and accommodated.
8. **Need For Broader and Deeper Debt Cancellation for More Countries Without Harmful Conditions Attached:** Too little debt cancellation has been made available for

too few countries in need.⁸ Impoverished countries that have benefited from initial debt cancellation are challenged to make use of the savings because restrictive IMF policies limit spending. Such concerns 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,"⁹ 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. Further, countries that continue to strive towards debt cancellation requirements and policy conditions are compelled to implement these harmful policies in order to complete the Heavily Indebted Poor Country (HIPC) initiative. The IMF must provide immediate debt cancellation for all impoverished nations without harmful and unnecessarily restrictive policy conditions attached.

9. **The Alternative Policy Scenarios:** Lastly, regarding the preparation of alternative policy scenarios, the new IMF papers and PIN suggest that it will only be IMF staff who would be preparing alternative scenarios of scaling-up, yet IMF staff should not be the *only* ones doing this work. The IMF must clarify what steps it will take to ensure: 1) that outside, independent economists representing varying opinions and approaches are also involved in preparing such alternative policy scenarios for policy makers; 2) that the long-term and short-term costs and benefits of a range of more expansionary fiscal and monetary options are also weighed; and 3) that a much broader group of public stakeholders (health & education ministry officials, key parliamentarians, labor unions, CSOs, domestic media) are given spaces for public debates and discussions to weigh various alternative scenarios and inform policy makers *before* official decisions are taken.

[Background Memo compiled by Rick Rowden, ActionAid International USA (**Rick.Rowden@actionaid.org**) and Prof. Brook K. Baker, Health GAP and Northeastern University School of Law Program on Human Rights and the Global Economy, (**B.Baker@neu.edu**) in August 2007].

⁸ "The Unfinished Agenda on International Debt: What did the 2005 debt deal achieve? What remains to be done?" by Jubilee USA Network. July 2006. http://www.jubileeusa.org/fileadmin/user_upload/Resources/Policy_Archive/Unfinished_Agenda_2006.pdf

⁹ "Does Debt Relief Increase Fiscal Space in Zambia? The MDG Implications," by UNDP's Terry McKinley and SOAS' John Weeks. September 2006. <http://www.undp-povertycentre.org/pub/IPCCountryStudy005.pdf>