

## TAKE ACTION:

Write a letter to the UK Executive Director to the IMF, Alex Gibbs, outlining your concern over IMF policies and their impact on health and education. Mention the specific policy recommendations outlined in this action sheet. Explain that with IMF reform high on the political agenda now is the time to abandon some of the IMFs more harmful and counter-productive policies.

You may also like to write to your MP and ask them to write to the UK Executive Director at the IMF too.

Send your letters to: *Alex Gibbs, UK Executive Director to the IMF, International Monetary Fund, 700 19<sup>th</sup> Street, N.W., Washington D.C. 20431, United States of America*

## Introduction

IMF policies present massive obstacles for poor countries trying to develop effective health and education systems by restricting the amount they can spend on them and severely diminishing their ability to employ more teachers and health care workers. Although the IMF continues to claim that it has changed priorities and that it now focuses on poverty reduction, its key macroeconomic policies remain unchanged, with often devastating consequences for the developing world.

With IMF reform high on the political agenda now is the time to push for the eradication of these policies once and for all.

## The role of the IMF

The stated purpose of the IMF is to provide macroeconomic stability in the world economy. There are few who would argue with the premise that such stability is important for the economic advancement of developing countries, but the IMF's zealous pursuit of its mission has at times been to the detriment of the world's goals on poverty reduction, health and education.

The IMF frequently presents itself as being pro-growth, stating that its policies are designed to promote the economic growth necessary to help lift countries out of poverty. The IMF asserts that it is this growth that will allow a country to increase its spending on social projects, including the hiring of more teachers and health care workers in a sustainable and manageable way. However there is little evidence to support this assertion and further investigation reveals that growth rates have actually slowed in countries that adopted IMF prescribed policies.

## IMF policy conditions

In order to keep inflation and public spending 'in check' the IMF often attaches strict conditions to their lending programmes. These conditions can take numerous forms, all of which ultimately hinder the creation of effective health and education systems.

## Deficit and inflation reduction targets

Recruiting extra teachers and health workers obviously increases the public sector wage bill. The IMF believes that this will lead to higher inflation which they believe would undermine a country's economic stability. Runaway inflation is indeed a very serious problem which can severely impede a nation's development, but the IMF sets its inflation targets and deficit reduction targets significantly lower than many other economists believe is necessary to achieve long term economic growth.

The IMF generally insists on an inflation rate of below 5 per cent even though there is a growing body of evidence to support the view that moderate inflation rates of between 5-20 per cent do not in fact hinder long-term economic growth, whereas overly restrictive macroeconomic policies designed to keep inflation rates at artificially low levels do.

In addition to its fixation on keeping inflation levels at almost suffocating levels the IMF also regularly includes deficit reduction targets in its agreements with recipient countries, typically running at just 2-3 per cent of their GDP, sometimes even insisting on budget surpluses. However empirical evidence has shown that many successful developing countries, most notably the 'tiger economies' of South East and East Asia prospered with a fiscal deficit of around 5-6 per cent of GDP for extended periods of time. By forcing countries to divert limited financial resources away from education and health initiatives the IMF is continuing to undermine progress in both.

## Budget and wage bill ceilings

In order to meet IMF targets on inflation and deficit reduction, countries have to put limits on their budgets to keep spending low enough to meet the IMF imposed fiscal and monetary targets. These severely impede a country's ability to hire health care workers or teachers, leading to vastly overstretched and under-resourced health and education systems. In some cases the IMF imposes direct caps on the numbers of teachers and health care workers a country can employ, though thankfully this policy is gradually falling out of favour.

In Kenya, for example, budget ceilings and caps on health care workers and teachers has led to a situation whereby there are 4,000 trained nurses and 60,000 trained teachers who cannot find work because the government is unable to hire them due to IMF policies.

## Diverting aid

A recent study conducted by the Independent Evaluation Office (IEO) concluded that a staggering 74 per cent of 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. Even when the IMF or other donors cancel or reduce the debts owed by impoverished countries these countries are often unable to make use of these savings because IMF policies continue to restrict spending.

## The impact of IMF policies

Mounting evidence in recent years suggests that the economic policies promoted and enforced by the IMF may be preventing developing countries from being able to spend more in their national budgets. This leads to budgets being constrained at unnecessarily low levels at a time when major increases are needed. Perhaps the most notable and damaging consequence of IMF policies is the shortage of trained health care workers and teachers – a major impediment to development and a direct result of IMF policies.

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 almost certainly worsen.

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.

It would be unfair to place the entire blame for such shortages on the IMF, but their policies have undoubtedly been a major contributing factor to the situation and they now have the moral responsibility to rectify the mistakes of the past to allow for a more prosperous future where all can enjoy the benefits of good health and education.

## Recommendations

We believe the IMF should:

- Stop the use of overly restrictive deficit-reduction and inflation-reduction targets;
- Exempt expanded health and education spending in developing countries from IMF-imposed budget ceilings;
- Allow developing countries to spend foreign aid for its intended purposes;
- Debt cancellation must be de-linked from harmful economic policy conditions;
- Strengthen transparency and the right to access information ; and
- Change its practices to ensure national, democratic decision-making over policy-making.

## Conclusions

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. The IMF must strike a better balance between short term fiscal considerations and longer term development needs. A developing country can only secure a better future by investing in the wellbeing of its people and this is best served by investing in health and education.