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A Civil Society Call for IMF Policy Reform

The financial turmoil that originated in the United States a year ago has become a **global financial crisis** widely believed to be the most severe since the Great Depression. The foundations of financial markets – previously thought of as almost invincible – have collapsed, plunging the world into a recession that is severely impacting emerging market countries whose financial markets are inextricably tied to those in the West, as well as low-income countries who are already suffering the impacts of higher food and oil prices. In the wake of the current global financial crisis, the International Monetary Fund (IMF) is signing new multi-billion dollar loan deals across both developed and developing countries. With an almost sudden force, it has emerged out of the "irrelevance" it was accused of in recent years and has reacted by positioning itself as the "financial firefighter" for a diverse range of countries teetering on the brink of financial meltdown. After having been portrayed as obsolete in a new world economy defined by the economic muscle of emerging markets, the IMF is now being heralded by media headlines that read: "*The IMF is back in business*" and "*The Fund is back in town*."

U.S. civil society organizations that work on international development, HIV/AIDS, global health and labor rights issues agree that **there must be a fundamental change in the content and application of the IMF's policy conditionalities and policy advice**. We call for structural policy changes to eliminate IMF-mediated macroeconomic targets that negatively impact long-term national development and growth, and to reduce the scope of the Fund's policy prescriptions so that it does not venture beyond its institutional mandate. We also call for debt cancellation and the adoption of international best practices in governance, transparency and inclusivity.

Specifically, the following principles and policies should be adopted as the role and functions of the IMF are reshaped.

The IMF should exit the development business

The IMF does not have policy expertise in the development arena, and its policy interventions in development-related policy have been harmful. Aid should be channeled through appropriate multilateral and bilateral development agencies, not the IMF. The IMF should also not be in the business of maintaining programs intended to signal to donors which countries should be eligible for foreign aid assistance. The IMF's unique role in the market for macroeconomic assessment leads to a monopoly—this should be opened up in order to create competition in the market and ensure development principles such as country ownership and stakeholder participation. Accordingly, the Poverty Reduction and Growth Facility (PRGF) and the Policy Support Instrument (PSI) should be closed, and the funds in the PRGF trust should be shifted to the trusts of aid agencies, implying no net decrease in concessional resources available to low-income countries.

Eliminate the IMF's mission creep

The IMF should not attach policy conditionalities or offer policy advice that is unrelated to addressing balance-of-payments problems directly. As the Independent Evaluation Organization's report on structural conditionalities stated, IMF's policies should be refocused to its circumscribed "core competencies" such as public expenditure management and tax

administration. The Fund should not venture into areas such as privatization, labor market regulation and trade liberalization.

Debt cancellation

Debt cancellation should be expanded to all the world's most impoverished countries (IDA only) without harmful conditions. The serious hardships imposed on middle- and low-income countries by the global financial crisis demand such a move. As international agencies and lenders prepare to ramp up what may be hundreds of billions of dollars, or more, in financial flows to developing countries, the financial feasibility of immediate debt cancellation for poor countries is clear. Furthermore, the increasing debt levels in developing countries over the past year are not the consequence of domestic policy failures, but rather are the result of exogenous causes including shocks in energy and food prices and now erosion of export earnings because of financial turmoil originating in developed countries. Developing countries should not have to shoulder the financial burden of debt that has been caused by exogenous and imported crises.

No financial sector liberalization

Given the financial crisis, IMF programs should not demand or encourage financial sector liberalization. Countries must be free to employ capital controls and other modes of regulation to the capital accounts in order to buffer extraordinary capital outflows and inflows. According to latest data, capital flows from Western financial institutions to emerging markets plunged from $900 billion to a mere $56 billion this year (6% of last year's amount). Clearly, this hemorrhaging of financial resources legitimizes capital account and exchange rate regulations as well as other measures by the state to intervene in national financial markets in the same manner that Western countries such as the United States have acted.

Let developing countries pursue expansionary macroeconomic policies

Countries must be free to pursue expansionary economic policies. It does not make sense to pursue restrictive policies to redress inflation caused by currency devaluations that are largely unrelated to any domestic policy. Similarly, in a time of global recession, countries must be free to run fiscal deficits, in order to build national demand and meet important social needs. Most developing countries' inflation is a result of imported or exogenous sources of inflation in global commodity markets. In the global financial crisis and world economic recession, tightening fiscal-monetary policies is not only the very opposite of what the G-7 countries have been doing – injecting liquidity into their financial institutions and loosening their monetary policies – but it is also clearly unjustifiable in terms of the harms caused to advancing development. Existing IMF policies need to be re-examined and revised toward instituting fundamental changes to the design, implementation and theoretical rationale behind the Fund’s macroeconomic targets regarding inflation and fiscal deficit levels.

The IMF should not impede public spending through budget caps

Specifically, the IMF must not impede countries from expanding government spending—free from any overall budget caps or overly restrictive fiscal deficit targets—on activities primarily involving domestic inputs. These include most importantly services such as healthcare and education. Increased domestic spending in health and education is especially important in times of recession, as low-income countries are even less able to afford essential services. The potential risks of IMF signaling to donor agencies about alleged increases in national macroeconomic instability, as defined by the IMF, is all the more apparent in the context of the

global financial crisis. Consequently, it is all the more important to drop the IMF's overly restrictive macroeconomic targets of inflation below 5% and fiscal deficits below 3%. This will require political will and concerted action.

IMF policies need to generate decent work

The IMF must also address the crisis in economic inequality, which is at the root of the current financial crisis. In both developed and developing countries, worker productivity has steadily increased while real wages have failed to keep pace. The IMF must abandon policies that choke off job creation; and should instead be supportive of macroeconomic and labor market initiatives designed to promote jobs founded on the International Labor Organization (ILO) concept of Decent Work. Further, there should be a strong commitment to the provision of publicly financed public services, performed by public employees.

Transparency and access to information at the IMF is vital

Transparency and the right to access information must be strengthened at the IMF. Disclosure of IMF draft policy papers, technical assistance reports, and Executive Board documents – such as the minutes of Board meetings – is imperative to facilitating informed participation by external stakeholders in national economic decision-making and to ensuring citizens' ability to hold their governments accountable.

Participation must open up

IMF practices must change to ensure national, democratic decision-making over policymaking. The operational process of IMF Mission Teams that visit countries to review loan agreements or conduct annual surveillance (Article IV reports) must facilitate open and informed consultations with a wide range of external stakeholders, not just with the Ministry of Finance and the Central Bank. Stakeholders should include other relevant government ministries (including health and education), independent economists and academic specialists, national civil society and labor unions. In particular, parliamentarians should have the right to view and discuss every loan program document before they are signed by the national finance ministries and central banks. These broad and meaningful consultations should occur before a country's macroeconomic policies are set.

Endorsing organizations:

ActionAid International, USA
AFL-CIO
Bank Information Center (BIC)
Essential Action
Gender Action
Health Alliance International
Health GAP (Global Access Project)
Jubilee USA Network
RESULTS
Treatment Action Group (TAG)

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