Save the Children Norway
KIRKENS NØDHJELP actalliance
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FOKUS FORUM FOR WOMEN AND DEVELOPMENT
SLUG The Norwegian Coalition for Debt Cancellation
The Norwegian Forum for Environment and Development
UTVIKLINGSFONDET

Consultation on IMF Low-Income Countries Work

We thank the IMF for the opportunity to give feedback on their Low-Income Countries work, and believe this is an important action towards a more transparent debate between the IMF and civil society.

First we would like to express our deep concern about the scope of fiscal austerity now occurring in low income countries, because this has a significant and life threatening effect on the poor and the most vulnerable. Most IMF program countries are currently cutting overall and health expenditure as percent of GDP, while most non-IMF countries are not[1]. In order to reach the MDG and ultimately fulfill basic human rights, higher spending in the social sectors is crucial. Take the health sector for instance: WHO estimates that a public health system would require a minimum of spending of around US$ 60 per person. Today the average level among the ten countries that spend the least on health is only US $5.4. Even in the countries that succeed in increasing the health budget, this often is on the expense of other areas within the social sector such as education and social protection.

While we recognize the need to maintain macroeconomic stability and responsible debt management in LICs, these countries simply need more fiscal space for sufficient anti-poverty spending, and this is where IMF plays a decisive role by providing technical advice and engaging in policy dialogue with Finance Ministries in Low-Income Countries. This should include a more pro-active stance towards exploring macroeconomic frameworks that allow for more flexible spending targets where possible, and tax policies that would unleash the potential for greater domestic resource mobilization. In addition, LICs' will still have to resort to external financing, such as loans and grants in order to fulfill human rights such as access to school or health care protection.

The IMF has a crucial role to play in order to mobilize enough internal and external resources to support LICs' efforts to combat poverty including investment in social sector. We believe it is within IMF's mandate to safeguard anti-poverty spending and IMF's own objective

[1] Reference: "Enhancing the IMF's Focus on Growth and Poverty Reduction in Low Income Countries", by Development Finance International (2011)

to “enhance focus on growth and poverty reduction” through PRGT confirms just that[2]. But a fresh report from DFI shows that IMF is not living up to their intention and can do much more to protect anti-poverty spending in low-income countries.

The recently published report Enhancing the IMF’s Focus on Growth and Poverty Reduction[3] (written by Development Finance International (DFI), and commissioned by Save the Children Norway, Norwegian Church Aid and the Norwegian Forum for Development and Environment) analyses if the IMF is living up to its intended objective of an “enhanced focus on growth and poverty reduction” and allowing countries to scale up spending towards the achievement of the Millennium Development Goals. The report looks particularly closely at impact on the health sector. It analyses all 37 PRGT agreements, and presents case studies of Honduras, Malawi and Sierra Leone, written by local experts closely involved in IMF-government discussions.

The report concludes that there is only very limited evidence of an enhanced focus on growth and poverty reduction compared to the previous lending facility (PRGF). There have been some steps forward showing increased flexibility by the Fund, but most were introduced before the PRGT, and those relating to macroeconomic policy look increasingly fragile.

Our recommendations for improving IMF’s low-income countries work through the PRGT are therefore:

- The PRGT is failing on putting an enhanced focus on poverty reduction and growth. We therefore **urge the Fund to document how programs are accelerating poverty reduction and growth through** producing annual PRGT-reviews. In addition should each PRGT program document analyze how it is accelerating growth, combating poverty/ inequality, including poverty and social impact analysis of the macroeconomic framework and structural conditions.

- **We insist that the Fund communicate and coordinate better with other multilateral actors such as the World Bank** and other UN agencies to conduct workforce analysis to show explicitly in all program documents how anti-poverty expenditures will provide adequate funding for employment and wage levels needed to attain the MDGs, as well as proof that overall wage bill cuts (whether in ceilings or forecasts) and benchmarks will not lead to anti-poverty sector wage or employment cuts.

- **We urge the fund in collaboration with LICs and donors to put even more emphasis on increasing revenue in low-income countries:**
  The IMF should enhance efforts to increase tax revenues (especially on major corporations, minerals and petroleum) - through growth and economic diversification, as well as raising taxes on income and wealth; reducing tax avoidance through tax havens and transfer pricing.

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[2] Just to make clear that it is our opinion that the IMF is not, and should not be, a long-term development lender. However, it has committed to enhancing its focus on growth and poverty reduction through the PRGT, and donors have provided concessional funding to the IMF to support the PRGT on this basis: the facilities should therefore be judged on whether they are achieving this goal.

[3] Enhancing the IMF's Focus on Growth and Poverty Reduction in Low Income Countries

- **We encourage a more transparent debate on planned spending levels between the IMF, LIC policymakers and civil society, both at global and national level.** IMF should prove that the recommended spending levels is sufficient to allow adequate spending in social sector, and showing that there is an adequate balance between investment and recurrent spending (including wage/ employment levels necessary to recruit and retain anti-poverty workers). IMF should also explain why any cuts are needed, and projecting alternative scenarios to show donors how MDG attainment will suffer without more aid.

- **We encourage the IMF to improve poverty reduction spending floors.** Analysis[4] shows that overall monitoring of current spending on anti-poverty is not sufficient and is not followed up by the IMF in a satisfactory way. All PRGT program countries should adopt anti poverty spending floors, and publish data on the floors and actual spending. In order to conduct cross-country analysis it is vital that the floors strive to have a more uniform definition, but of course adapted to country context. Last but not least it is important that the data is disaggregated by sector, to avoid spending cuts in some sectors to protect others.

We hope that our suggestions will be carefully considered. Please do not hesitate to contact us if anything is unclear.

Best regards,

Save the Children Norway,

Norwegian Forum for Environment and Development,

Norwegian Church Aid,

Save the Children UK,

The Norwegian Coalition for Debt Cancellation (SLUG),

The Development Fund

Forum for Women and Development (FOKUS)

[4] Reference: "Enhancing the IMF's Focus on Growth and Poverty Reduction in Low Income Countries", by Development Finance International (2011)