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IMF HEADED FOR FAILURE IN RESCUE OF GLOBAL ECONOMY?

No Blank Check for IMF Without Real Reforms, Say Activists from Africa & Hard-Hit Latvia

Washington, D.C. — Just three weeks after the London Summit of the Group of 20 countries decided to make the International Monetary Fund (IMF) the primary vehicle for global economic recovery, civil society critics are charging that the programs it has instituted since the crisis struck could do more harm than good.

On the eve of the semi-annual ("spring") meetings of the World Bank and IMF, they are demanding that the finance ministers gathering in Washington change IMF rules so that emergency funds are delivered to vulnerable countries without damaging economic conditions, and without creating a new debt crisis.

Latvia has suffered most dramatically, with the IMF withholding a promised loan installment of $200 million last month because public spending was not being cut fast enough. "Our economy is falling apart — they say it will shrink 12 percent this year, our government has cut the budget by 40 percent but the IMF is demanding a 'deficit target' of 5 percent of GDP! To reach this we will have to shut down our hospitals and cut pensions. People are scared, and they are taking to the streets to protest these draconian measures," said Inga Paparde of the Latvian AIDS activist group Association HIV.LV.

But Latvia is not alone. Surveys of credit and loan arrangements for countries ranging from Pakistan to Malawi demonstrate that while the IMF is supporting fiscal stimulus for industrialized countries, it is demanding that most of the world cut public sector expenditures, hike interest rates, and reduce deficits — the opposite of the cure recommended for the United States and Europe.

"This shipwrecked economy has tossed everyone into the waves, but the captains who led us into the storm are boarding the lifeboats while the rest of the world is getting left behind," said Soren Ambrose, Development Finance Coordinator for ActionAid International. "Ethiopia, one of the poorest countries in the world, must hike fuel prices, cut public spending, and reduce its deficit. Ukraine must keep its deficit at zero. Belarus and Latvia must cut public-sector wages. Pakistan must raise its electricity rates. The list goes on and on."

In Africa, people have long been accustomed to IMF budget and wage caps preventing their governments from spending what is needed to hire the teachers and medical staff who can provide basic life-saving and modernize agriculture from which over 75 percent of Tanzania derive their livelihood. "Nothing has really changed with the crisis," says Dr. Peter Bujari of Human Development Trust in Tanzania. "Even with this externally-driven crisis that is driving down our export income, aid, and foreign investment, the IMF has given us no hope that there will be any financial stimulus, but only allowing some spending of aid originally diverted to reserves."

Less than 5 percent of the money on offer from the G20 is designated for low income countries specifically, and civil society groups are concerned that even these limited funds are planned in the form of loans rather than grants. Says Neil Watkins of Jubilee USA Network, "Because the money promised by the G20 for poor countries is in the form of new loans, rather than grants or debt relief, the IMF may be contributing to a renewed Third World debt crisis. Instead, the IMF should devote the majority of its planned sale of IMF gold to provide debt cancellation to poor nations, which countries urgently need to finance social services in light of the economic crisis."

Robert Weissman of Essential Action points out that the IMF for the last 30 years has been a champion of policies of deregulation and liberalization that have fuelled this crisis. "The IMF took the logic that led to deregulation of the US banking sector and imposed it on most of the world's developing countries. Its policies threw people out of work, reduced productive capacity, and starved governments of the capacity to provide basic services. By requiring that developing countries integrate into the global economy, they made them more vulnerable to today's crisis. Developing country governments simply cannot afford more of the IMF's medicine; they must demand the freedom to follow policies that protect their people from more harm, and the G20 leaders must listen."

Pointing to the education sector as an example of where the IMF's impacts must be urgently addressed, David Archer, board member of the Global Campaign for Education stressed, "Investment in education is a crucial crisis response, yet it is currently an option denied to poor countries due to IMF policy advice, which constrains social spending. Reform must accompany the new funding for the IMF so that responsible stimulus programs are not denied to the poorest and most vulnerable countries."

Dr. Peter Bujari and Inga Paparde will participate in a media briefing on the afternoon of April 22. A transcript and recording of the call will be made available by April 23. Please contact Blair Hinderliter at bhinderliter@results.org for more information.

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