Consultation on the 2018 Review of the IMF's Facilities for Low-Income Countries

Dear consultation team,

This is a joint statement from
- European Network on Debt and Development (Eurodad)
- Bretton Woods Project
- Erlassjahr.de
- Debt Justice Norway

Please find our thoughts and suggestions below. We have not answered all the questions you proposed, but we hope that our input is still valuable.

1. Support to countries vulnerable to natural disasters

We remain concerned that the IMF support available to the countries affected by natural disaster is not adequate. The current example of hurricanes Maria and Irma shows that support is available principally via non-concessional lending e.g. through the Rapid Financing Facility (RFI). Concessional lending through the Rapid Credit Facility (RCF) is only available to Poverty Reduction and Growth Trust (PRGT)-eligible Low Income Countries (LICs). While Dominica qualifies through a small state exception, Antigua & Barbuda, which has already been one of the most severely indebted nations in a severely indebted region, does not. The risk is that market-rate financing will ultimately lead these countries into deeper debt, thus extending the recessionary effects of the disaster into the future. Where new international financing is provided to assist with hurricane recovery efforts, this should rather be provided in the form of grants, not loans.

Making IMF Facilities state-contingent

When countries are affected by natural disasters that causes severe damage, the IMF facilities should allow for an immediate moratorium on all debt payments. Hurricanes Irma and Maria are not the first weather events of this kind to affect the region, and it is unlikely that they will be the last. To support macroeconomic resilience against such events and create more fiscal space to tackle them, the IMF should provide vulnerable nations with the permanent option of an immediate stay of payments and automatic debt restructuring in the case of future natural disasters. Various proposals to making loans to vulnerable countries state-contingent have already been discussed inside and outside the Fund and multilateral development banks, as well as by CSOs such as Jubilee Caribbean.

Debt relief
The IMF should, furthermore, support comprehensive debt relief through the introduction of a standing, independent debt relief mechanism for a group of countries such as Caribbean SIDS who qualify due to objective criteria, i.e. that their debt sustainability is vulnerable to common, external risks: this would allow for a standard framework to be swiftly relied upon in the wake of natural disasters and which could overcome political deadlocks. Such a limited debt relief scheme could then imply procedural innovation that could remedy weaknesses of the HIPC/MDRI schemes and debt restructuring mechanisms at large, by making them more comprehensive and impartial.

In addition, debt relief rather than additional lending would immediately free up domestic resources for urgent reconstruction efforts and support mitigation of prolonged economic contraction. Debt relief by the IMF would demonstrate recognition by the Fund of the scale of the recovery needs in the region, and that scarce resources should be effectively mobilised to prioritise pressing humanitarian relief and reconstruction efforts.

Revise eligibility criteria
IMF debt relief is made available to countries hit by natural disasters via the Catastrophe Containment and Relief Trust (CCRT), but according to its rules, all of the Caribbean islands in question are excluded from applying for Trust support. Despite being PRGT-eligible, even Dominica, as the poorest nation in the Eastern Caribbean, has a per capita income over four times the International Development Association's (IDA) operational cut-off, exceeding the CCRT eligibility threshold for small states (USD 2370). The Fund should revise CCRT eligibility criteria to include SIDS and at least IMF members eligible for the PRGT through a small state exception.

2. Rising number of structural conditions in IMF lending to low income countries
Reflecting pre-existing CSO concerns as noted in the letter submitted for the 2008 IMF Facilities Review, CSOs remain worried about the rising number of structural adjustment conditions attached to LIC facilities, as well as their impacts on social spending.

A 2016 study that systematically examined IMF policy conditionality in LICs over three decades found that the number of structural adjustment conditions increased by 61% between 2008 and 2014, reaching a level similar to the pre-crisis period.

These findings are confirmed by a 2014 study in which Eurodad found that the number of policy conditions per loan had risen between 2011 and 2013, counting an average of 19.5 conditions per programme, a sharp increase compared to previous Eurodad research, finding an average

of 13.7 structural conditions per programme in 2005-2007 and 14 per programme in 2003-2004.

This development has taken place despite the IEO's 2008 evaluation specifically warning about the lack of progress on reducing conditionality, finding "the large number of conditions was widely criticized as intruding in the policymaking process and detracting from society's sense of ownership of programs", and advising the the Board "to reaffirm the need to use structural conditions sparingly".

Civil society echoes the concern that the increase of IMF conditionality in LIC facilities undermines the policy space of sovereign states to determine their own economic policies. As we have argued before, real democratic ownership should come from more than the acceptance by a government facing dire economic circumstances of a set of economic reforms: it should be the result of a process that involves parliaments and civil society organisations and we once again urge the IMF to reduce its increasing use of structural conditions in LIC facilities.

3. Conditionality impacts on Social Spending

Contrary to recent IMF research, for many years independent studies have found IMF facilities in LICs have detrimental impacts on levels of social spending, causing serious harm to vulnerable and marginalised populations in particular, contributing to rising inequalities and undermining states' abilities to fulfil their core human rights obligations and achieve the SDGs.

Most recently for instance, the results of research conducted in early 2017 showed that LICs entering into an IMF programme on average decrease public health spending by 1.7 percentage points as a share of GDP. Several recent cross-national studies on the effects of structural adjustment on social expenditure also suggested that it is associated with decreases in spending in LICs outside sub-Saharan Africa and democratic states, while a 2017 study found that each additional IMF condition reduces government health expenditure per capita by 0.25 per cent in the 16 West-African countries studied. Furthermore, an October 2017 publication showed that priority social spending targets of IMF programmes in LICs were observed only about half of the time, even though fiscal deficit reforms were almost always met.

We urge the IMF to safeguard social spending in LIC facilities, enhance cooperation with relevant UN organisations on these areas, and adopt alternative policy approaches to austere fiscal consolidation.

4. Gender and economic inequality

Over the last five years, the IMF has started exploring the macro-criticality of certain macro-structural issues such as economic and gender inequality, and to a lesser extent climate

change. This work has moved relatively swiftly from research to operationalisation in bilateral surveillance reports, as well as inclusion in some lending programmes. This recognition of income, wealth and gender inequality as relevant macroeconomic topics is welcomed.

However, civil society organisations are concerned the approach to these new issues seems unsystematic and ad hoc, and risks the IMF's policy advice becoming contradictory and counterproductive. Before this work evolves further into LIC facilities, we urge the IMF to systematically measure and address the equity impacts of its policy advice in LIC facilities to safeguard gender and economic inequalities being further exacerbated by its loan programmes.