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IMF Ventures into the Poverty-Alleviation Business

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The International Monetary Fund and the U.S. Treasury are making an all-out effort to secure the funding necessary to make the Fund's controversial Enhanced Structural Adjustment Facility (ESAF) self-financing. ESAF has been used by the IMF since 1987 to shape the economies of the world's poorest countries, including Bolivia, Guyana, Haiti, Honduras and Nicaragua in this hemisphere.

Stung by the difficulty it encountered last year in gaining U.S. Congressional approval for an IMF quota increase, the Treasury has sought to package ESAF financing with the funding of the proposed Highly Indebted Poor Countries (HIPC) multilateral debt-reduction plan for some of the same nations in order to overcome Congressional opposition. Authorization for HIPC financing has been before the Congress for some time, and it is expected that the Clinton Administration will request support for an IMF gold revaluation and investment plan that would finance both debt relief and the current funding gap in ESAF. At the same time, the Administration is asking for commitments from the other industrialized countries for both bilateral and multilateral debt reduction in the wake of the G7 decision in Cologne in July to expand the scope of HIPC.

Many Third World development groups -- including those in the debt-cancellation advocacy network, Jubilee South -- are outraged at the prospect of having the success of the global Jubilee 2000 debt campaign used to strengthen the IMF and expand its power to impose structural adjustment programs. They have seen their countries' economies gutted by these programs, as import liberalization, high interest rates, the lack of government assistance and diminishing consumer demand due to falling wages have destroyed local businesses, small farms and the jobs they provide. They oppose any adjustment conditionality attached to debt-reduction schemes, including that found in the HIPC Initiative. For its part, the Treasury has shown no willingness to delink debt reduction from the required implementation of adjustment policies, which, critics charge, have opened and restructured foreign economies for the benefit of international investors. Vulnerable to these criticisms and to the recent high-profile failures of their policy prescriptions in Asia, Russia and Latin America, the Treasury and the international financial institutions have lobbied Northern Jubilee campaigns and other NGOs in the North for the critical support they need for their debt/ESAF initiative. At the IMF/World Bank Annual Meetings in Washington this September, the IMF publicly committed itself to poverty reduction -- a subject on which it has demonstrated no knowledge and little interest in the past -- renaming ESAF the "Poverty Reduction and Growth Facility". Poverty Reduction Strategy Papers (PRSPs) will, in the future, be required of governments, but they will be produced "in close collaboration with Bank and IMF staff." They will be introduced first in a handful of HIPC-eligible nations and eventually in all ESAF countries.

Details on the exact nature of this poverty-reduction initiative will not be available until late November or December, well after expected Congressional action on IMF financing. While the Fund and the Bank have acknowledged that, after 20 years of imposing adjustment policies on countries across the globe, poverty and inequality have seriously worsened, they will not address market liberalization, privatization, monetary and related economic adjustment policies as sources of these growing problems. The focus will be on health care, education and social policy, rather than on the generation of wages and incomes sufficient to ensure dignified living standards. Intermediate social indicators, such as school enrollment and adequate health facilities, will be used to measure progress toward achieving anti-poverty goals.

In fact, IMF Managing Director, Michel Camdessus, defiantly defended adjustment policies at the close of the Annual Meetings. "[T]he so-called bitter IMF medicine," he told the press, "...is very good medicine for those who want to strive to improve the living conditions of their people." This stance is consistent with the Fund's position on HIPC from the start: that the initiative is designed to reduce the debt of those countries that pursue "prudent" economic policies. The PRSPs would ensure that a country's goals and plans for poverty reduction and social development are consistent with these macroeconomic policies. And, for the foreseeable future, the Fund will continue to use Policy Framework Papers, which outline national adjustment programs, alongside the new PRSPs.

As a final irony, it will be the IMF and World Bank that will determine the adequacy of national poverty-reduction plans. The result, if the debt/ESAF plan were financed, would be an even deeper and broader involvement of these institutions in the everyday management of national economies.

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