

Doing a decent job?
IMF policies and decent work in times of crisis

About SOLIDAR

SOLIDAR is a European network of 53 NGOs active in over 90 countries working to advance social justice in Europe and worldwide. SOLIDAR lobbies the EU and international institutions in three primary areas: social affairs (more social Europe), international cooperation (decent work for all) and education (lifelong learning for all).

www.solidar.org

About The Global Network

With the aim of achieving decent work for all, the Global Network works to empower women and men who are activists in NGOs, trade unions, associations of informal workers and grassroots movements to build capacity, exchange experiences and coordinate joint actions, at both regional and international level. The project is coordinated by SOLIDAR and IFWEA.

www.theglobalnetwork.net

About Eurodad

The European Network on Debt and Development is a specialist network analysing and advocating on official development finance policies. It has 59 member groups. Its roles are to:

- research complex development finance policy issues;
- synthesise and exchange NGO and official information and intelligence;
- facilitate meetings and processes which improve concerted advocacy action by NGOs across Europe and in the south.

Eurodad works to push for policies that support pro-poor and democratically-defined sustainable development strategies. We support the empowerment of Southern people to chart their own path towards development and ending poverty. We seek appropriate development financing, a lasting and sustainable solution to the debt crisis and a stable international financial system conducive to development.

www.eurodad.org

About this briefing

This report has been written by Rick Rowden (independent consultant) and edited by Nuria Molina (Eurodad). The report draws on in-country interviews conducted by Fabien Lefrançois (El Salvador), Alda Ozola (Latvia), and Javier Pereira (Ethiopia).

Thanks are also due to:

Andrea Maksimovic (SOLIDAR), Jostein Hole Kobbeltvedt (Norwegian Church Aid), Soren Ambrose (ActionAid), Alex Wilks (Eurodad).

Responsible editor: Conny Reuter

Project coordinator: Andrea Maksimovic

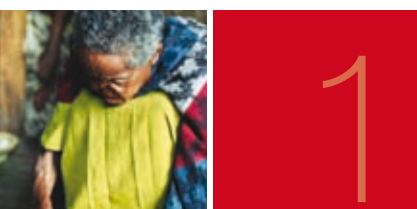
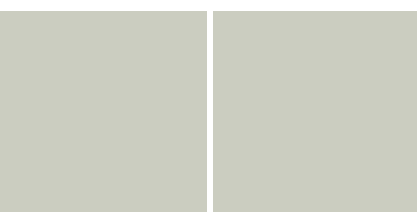
Printed on recycled paper

Printed by SOLIDAR. October 2009.

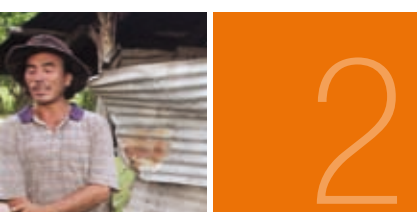
Table of Contents

Executive Summary	4
-------------------------	---

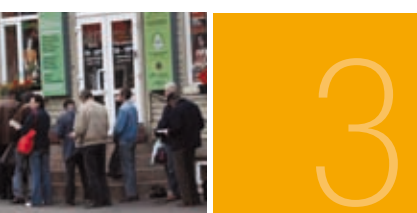
Table 1	6
Do the current IMF Loan Programmes Support the ILO's "Global Jobs Pact" Policy Recommendations?	



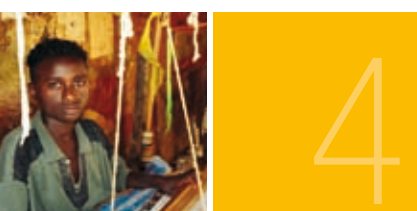
Part 1 IMF lending increases in the context of the financial crisis	7
--	---



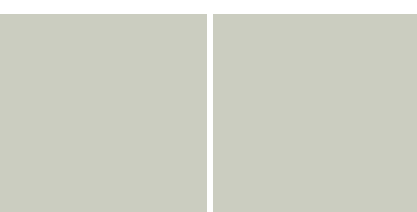
Part 2 An examination of recent IMF loans to El Salvador, Ethiopia and Latvia: main findings	9
Table 2	10
General and Special Special Drawing Rights Allocations, IMF	



Part 3 The IMF, social protection and decent work: what has changed?	23
---	----



Part 4 Conclusions and recommendations	26
--	----



Annex 1	29
References	30
Acronyms used	31

Executive Summary

In April 2009, the G20 group of leaders committed \$1.1 trillion to combat the financial crisis. Most of this finance - \$750 billion – is to be channelled through the International Monetary Fund (IMF). Boosting equitable growth, meeting the most urgent needs of the poor, and laying the foundations for a robust development which creates decent work and benefits the poorest sectors of society should be the main goals of the funding provided to counter the effects of the crisis. However this study raises strong doubts that IMF loans will have the intended positive effect on developing countries.

- ● ● Meeting the most urgent needs of the poor, and laying the foundations for a robust development which creates decent work and benefits the poorest sectors of society should be the main goals of the funding.

The IMF has stated that it has changed its traditional stances on tight fiscal and monetary policy advice and lending conditions and has become “more flexible”. However, experience so far indicates that the IMF is still imposing inappropriate, pro-cyclical¹ conditions on many borrowers. These may unnecessarily exacerbate economic downturns in a number of countries.

This report examines three recent IMF loan programmes for El Salvador, Ethiopia and Latvia. The objective is to examine the extent to which the IMF is changing its traditional policy advice and conditions in the context of the financial and economic crisis. In particular we investigate to what degree the IMF loan programmes call for measures that support counter-cyclical policies to boost equitable and home-grown growth; social protection spending; and the implementation of the Decent Work Agenda and commitments made by the ILO and its constituents in the 2008 Declaration on Social Justice for a Fair Globalisation and the 2009 Global Jobs Pact.

- ● ● The objective is to examine the extent to which the IMF is changing its traditional policy advice and conditions in the context of the financial and economic crisis.

- ● ● We investigate to what degree the IMF loan programmes call for measures that support counter-cyclical policies to boost equitable and home-grown growth; social protection spending; and the implementation of the Decent Work Agenda.

The assessment of the recent IMF programmes in El Salvador, Ethiopia and Latvia reveals that there has been some easing of fiscal targets compared to historic IMF positions. This allows for slightly higher budget deficits on a temporary basis. As always, though, the devil is in the detail, and these governments’ very narrow fiscal space – and often constrained monetary policy choices – has effectively limited their opportunities to adopt more decisive counter-cyclical monetary and fiscal policies.

In all three cases examined very few of the Decent Work Agenda principles or Global Jobs Pact policy initiatives are being adopted or supported as priorities; and, although increased social protection spending seems to be consistently supported by the IMF, its budget cut requirements effectively limit the fiscal space available to increase social protection and anti-crisis programmes. At best, social protection spending is only maintained (Ethiopia) and in some cases (Latvia) is drastically cut.

More worrying is the IMF programme limitation on sustaining expansionary policies over time. Where there is a loosening of the fiscal targets, this is very narrow and temporary, as often the IMF expects the country to bring down the deficits to pre-crisis levels as soon as 2011 (Ethiopia, Latvia). The IMF seems to be strictly focused on tight fiscal and monetary policy (balanced fiscal positions and rebuilding the reserve buffers) to increase resilience of these countries in the future. The possibility of implementing more flexible macroeconomic policies which could be combined with micro interventions to increase the resilience of these countries (investment in social protection systems, enhancing access to credit by small and medium enterprises, capital controls, or more progressive taxation systems) do not seem to be on the table for discussion.

However, interviews with different stakeholders in the three countries also reveal that the political economy of the decisions taken is complicated. In El Salvador some civil society and trade

¹ When the value of a good or service moves in the same direction as the overall state of the economy. In other words, when the economy is shrinking, a pro-cyclical approach would be to cut spending on, for example, social protection schemes.

union activists argue that the past (conservative) government has been greatly co-responsible for “20 years of privatizations and other neoliberal policies, which led to a 40% decrease in the number of jobs. However, with the recent change in government, there is a new window of opportunity.” And the new government recognises that “the IMF has never been so soft” when negotiating with El Salvador. And in Latvia, the political economy of the negotiations between the Fund and the government is even more complicated because of Latvia’s commitment to join the Euro by 2013, which leaves very little room for flexibility on fiscal and monetary policies.

A crucial problem in all countries assessed is the lack of involvement of line ministries, parliamentarians, trade unions and civil society during the negotiations of the IMF loans and the respective budget laws or structural reforms associated with the Fund’s finance. The lack of genuine policy alternatives and more decisive counter-cyclical policies seems to be the result of a combination of the IMF narrow-mindedness on broad macroeconomic objectives and a certain degree of blindness towards the broader development strategy of the government, and the Finance Ministries own agenda to keep the budgets balanced. The IMF focuses on a specific budget deficit target regardless of where spending cuts are made or where the income comes from and Finance Ministries sometimes also see social protection spending, investment and industrial policies as just a secondary priority.

In a recent briefing, IMF representatives expressed their hopes that in 2011 the world would experience the resumption of the “healthy growth of the last decade”. However, the crisis has shown that this world economic growth was based on rotten foundations. International Institutions, such as the IMF, and national governments should learn the lessons from this crisis and start – from now – building the recovery on a more solid basis.

For this purpose it is crucial that counter-cyclical policies are geared towards boosting equitable and home-grown growth; increased social protection spending and investment in social capital; and that economic policies are matched with internationally agreed social and labour standards outlined in the Decent Work Agenda and commitments made by governments at the ILO and its constituents in the 2008 Declaration on Social Justice for a Fair Globalisation and the 2009 Global Jobs Pact.

To ensure that the IMF uses its huge increase in financial resources in an effective way to create decent work, reduce

inequality and eradicate poverty the institution should radically depart from the economic orthodoxy that has informed its past policy advice and conditionality. It should:

- Make available additional resources for counter-cyclical action in countries facing fiscal and policy constraints and urge the international community to provide development assistance, including budget support, to build up a basic social protection floor on a national basis. Rather than signalling its traditional “aid pessimism” the IMF should work with donors and borrowers to develop a set of more expansionary fiscal and monetary policy options to be considered in broad dialogue with civil society and trade unions.
- Allow governments to adopt expansionary fiscal and monetary policies which provide them with the necessary fiscal space to invest in social protection and home-grown growth, including active labour market policies.
- Allow governments to use industrial policies to enhance economic diversity by building capacity for value-added production and services to stimulate both domestic and external demand.
- Actively seek to complement their country surveillance with ILO monitoring of the employment and social agenda, as indicated in the ILO’s mandate from the G20. Interagency cooperation should ensure that IMF’s macroeconomic frameworks for borrowing governments accommodate the ILO’s mandate to:
 - Promote the establishment of minimum wages (ILO Minimum Wage Fixing Convention, 1970, No. 131) that can reduce poverty and inequity, increase demand and contribute to economic stability.
 - Help governments to more meaningfully address the problem of informality of the workforce to achieve the transition to formal employment.
- In the short-term enhanced interagency cooperation linking the IMF’s surveillance to that of UN agencies, such as the ILO, can help ensuring that the IMF’s macroeconomic policy advice and conditions accommodate the necessary government expenditure to ensure enforcement of basic social and economic rights. However, as the IMF lacks a development mandate and has a very limited capacity on development economics it will be necessary to empower or create alternative bodies or institutions with the mandate and relevant capacity to conduct macroeconomic assessment and provide macroeconomic policy advice which is sensitive to the needs of low-income and developing countries.

Table 1:

Do the current IMF Loan Programmes Support the ILO's "Global Jobs Pact" Policy Recommendations?

In June 2009, the ILO responded to the deepening global economic crisis by offering a list of practical policy recommendations for countries to consider that would ease the negative impacts on workers. The policy suggestions are based on the ILO's Decent Work Agenda and commitments made by the ILO and its constituents in the 2008 Declaration on Social Justice for a Fair Globalisation. Below is an estimated cross-comparison of the key policy recommendations with the policies and priorities detailed in available IMF loan documents.

ILO "Global Job Pact" Policy Recommendation*	IMF Loan Programme for El Salvador	IMF Loan Programme For Ethiopia	IMF Loan Programme for Latvia
Macroeconomic stimulus package	Yes	No	No
Collective bargaining	No	No	Yes
Statutory or negotiated minimum wages	No	No	Yes
Public employment services for jobseekers	Yes	No	No
Implementing active labour policies	No	No	No
Implementing vocational and entrepreneurial skills programmes	No	No	No
Investing in workers' skills development, skills upgrading and re-skilling	No	No	No
Tripartite Social Dialogue on mitigating job losses	No	No	Yes
Supporting job creation across sectors of the economy	No	No	No
Providing measures, including access to affordable credit, that would ensure a favourable environment for SMEs and micro-enterprises	No	No	No
Support for community cooperatives	No	No	No
Public employment guarantee schemes for temporary employment, emergency public works programmes and other direct job creation schemes which are well targeted, and include the informal economy	Yes	No	No
Supportive regulatory environment conducive to job creation	No	No	No
Increasing public investment in infrastructure, research and development (R&D), public services and "green" production	No	No	No
Cash transfer schemes to the poor	Yes	No	Yes
Basic social protection floor including: access to health care, income security for the elderly and persons with disabilities, child benefits and income security combined with public employment guarantee schemes for the unemployed and working poor	No	No	Yes
Extending the duration and coverage of unemployment benefits	No	No	No
Ensuring that the long-term unemployed stay connected to the labour market through, for example, skills development for employability	No	No	No
Providing minimum benefit guarantees where pension or health funds may no longer be adequately funded	No	No	No
Providing adequate coverage for temporary and non-regular workers	No	No	No

* "Recovering from the crisis: A Global Jobs Pact," International Labour Organisation, June 2009.



© IL.O/F/orente A. - Woman entrepreneur with a disability. Trader, affected by leprosy, selling red peppers in the streets of Addis Ababa, Ethiopia

Part 1

IMF lending increases
in the context of
the financial crisis

Before the financial crisis, at the end of the 2007 fiscal year, IMF debtors owed some \$11 billion worth of loans. Since the crisis began, the IMF has committed loans worth about \$165 billion. In April 2009, the G20 group of leaders committed \$1.1 trillion to combat the financial crisis. Most of this finance - \$750 billion - is to be channelled through the International Monetary Fund (IMF). Industrialised and reserve-rich governments plan to lend up to \$500 billion to the IMF which the institution will use to lend to countries in need at market interest rates. Some \$250 billion has already been provided by an issuance of special drawing rights (SDRs), the IMF's reserve asset. But a share of this substantial amount of resources is still to be provided and the amount and terms of the finance available for low-income countries is widely held to be insufficient to adequately address spending needs in the wake of the economic crisis (Akyuz 2009; Chowla 2009; Wilks 2009).

Boosting equitable growth, meeting the most urgent needs of the poor, and laying the foundations for a robust development which creates decent work and benefits the poorest sectors of society should be the main goals of the funding provided to counter the effects of the crisis. However this study raises strong doubts that IMF loans will have the intended positive effect on developing countries.

● ● ● Experience so far indicates that the IMF is still imposing inappropriate, pro-cyclical conditions on many borrowers.

The IMF has announced changes to its traditional stances on tight fiscal and monetary policy advice and lending conditions. Because of the crisis, the IMF has said it altered its fiscal policy generally by factoring in higher deficits and spending in 2009 and 2010. It claims to have made financial assistance programmes more flexible, to have loosened fiscal targets in close to 80 % (18 out of 23) of African countries that have an active IMF programme (IMF 2009a).

The IMF also says it has relaxed its inflation reduction objectives, beginning in 2008 when world food and fuel prices rose leading many food and fuel-importing countries to experience external shocks. The IMF also announced it has streamlined its loan conditions, reducing the number of structural conditions in many programmes. However, the elimination of this kind of conditionality does not mean an end to the practice of requiring structural reforms from borrowing countries. Instead, "the IMF will rely more on pre-set qualification criteria (ex-ante conditionality) where appropriate rather than on traditional (ex-post) conditionality" (IMF 2009b). That will likely mean an increase in the use of 'prior actions', conditions that must be fulfilled prior to getting a loan rather than those required during the course of the loan. Structural benchmarks, which are not

legally binding but still force policy change, will continue to be used, as will traditional quantitative targets.

Experience so far indicates that the IMF is still imposing inappropriate, pro-cyclical conditions on many borrowers that could unnecessarily exacerbate economic downturns in a number of countries. Several studies examining fiscal and monetary targets in recent IMF loan programmes find that the IMF has continued to impose pro-cyclical macroeconomic tightening in almost all recent lending arrangements (Eurodad et al 2008; TWN 2009; Eurodad 2009; and CEPR 2009). Where greater flexibility has been granted, it seems to be a temporary measure (Eurodad 2009), with the hope that former levels of global economic growth will resume in 2010-2011 and countries will be able to return to macroeconomic frameworks which ensure strict fiscal balance and very low levels of inflation, and a growth pattern heavily reliant on exports, foreign direct investment, and international capital. The IMF has recognised that developing countries focused on a single export, less diversified economies, and those that are strongly reliant on foreign capital have been particularly vulnerable in the current crisis (IMF 2009d). Yet it has not turned to alternative policies that could foster more robust, home-grown and equitable growth in the mid and long term. The IMF is hoping that its lending will again be substituted by international capital markets which will continue making growth possible in the developing world. But what number and quality of jobs will be generated by that growth and what will be the social impacts of restrictive public spending?

The Decent Work agenda

Decent Work was proposed as the primary goal for the International Labour Organisation (ILO) at the 87th Session of the International Labour Conference (June 1999) by its Director General Juan Somavía: "The primary goal of the ILO today is to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity."

Decent Work is captured in four strategic objectives:

1. Access to freely chosen employment.
2. Fundamental principles and rights at work and international labour standards.
3. Social protection and social security.
4. Social dialogue.

These objectives hold for all workers, women and men, in both formal and informal economies; in wage employment or working on their own account; in fields, factories and offices; in their home or in the community.



© ACPP - Slum dwellings in El Salvador

Part 2

Recent IMF loans to
El Salvador, Ethiopia
and Latvia

Table 2:

General and Special Special Drawing Rights Allocations (in millions of SDRs). Source: IMF

Member Country	General SDR Allocation ^{1,3}	Special SDR Allocation ²	Total ³	in millions of US Dollars
El Salvador	127.0	11.8	SDR 138.8	\$216.9
Ethiopia	99.1	17.7	SDR 116.8	\$182.5
Latvia	94.0	26.8	SDR 120.8	\$188.8

This report examines three recent IMF loan programmes for El Salvador, Ethiopia and Latvia. It draws on official documents (including IMF loan documents, Letters of Intent from finance ministries to the IMF, IMF staff reports and IMF loan documents) and a series of in-depth interviews with IMF Resident Representatives and leading officials (in finance and line ministries), policymakers, trade unionists and civil society activists in each country, undertaken in July and August 2009.

The objective was to examine the extent to which the IMF is changing its traditional policy advice and conditions in the context of the financial and economic crisis and to what degree the IMF loan programmes call for measures that support counter-cyclical policies to boost equitable and home-grown growth; social protection spending; and the implementation of the Decent Work Agenda and commitments made by the ILO and its constituents in the 2008 Declaration on Social Justice for a Fair Globalisation and the 2009 Global Jobs Pact. The Decent Work response to the global economic crisis includes the following principles for promoting recovery and development; accelerating employment creation, jobs recovery and sustaining enterprises; building social protection systems and protecting people; strengthening respect for international labour standards; and supporting social dialogue on rights to bargain collectively².

For each of the countries assessed, this report reviews:

- The extent to which countries are allowed to loosen their fiscal and monetary policies to be able to adopt counter-cyclical measures to boost economic growth and employment creation.
- The impact of fiscal targets on social protection spending and public sector wages.
- The impact of public spending and financial sector policies in small and medium enterprises.
- Tax reforms.
- Financing options available to the government.

This report finds that whereas the IMF seems to be granting greater flexibility by allowing greater budget deficits and emphasising the need to maintain social protection spending, IMF programmes

still consistently require budget cuts and country authorities face the contradiction of having to implement fiscal and monetary policy adjustments while attempting to protect their citizens in the economic downturn. In all three countries assessed:

- Although the IMF is accepting looser fiscal policies than it previously has, this seems to be a temporary measure aiming at returning to low budget deficits as soon as 2011/ 2012. But even in the short-term, some budget cuts are required in all IMF programmes.
- Governments are given flexibility to decide how to implement budget cuts, and they are even encouraged to maintain social protection spending. However, given the limited availability of resources, social protection spending and creation of decent jobs are dramatically limited – and all too often this type of spending is being cut.
- There has been insufficient involvement of line ministries, civil society, and trade unions in the decision-making processes about structural reforms and budget cuts. Institutional mechanisms for enabling a broader group of public stakeholders to participate in more inclusive processes for macroeconomic policy making were absent in El Salvador and Ethiopia. In Latvia, only after social unrest and protests from trade unions, the government has decided to establish a “reform management task force.”
- The IMF approach to greater resource mobilisation is narrow. The Fund mostly advises tax administration reforms and increases to Value Added Tax (VAT). According to civil society consulted, governments and the IMF need to do much more to make taxation more progressive and avoid tax evasion.
- The types of industrial policies required to bring companies and workers from the informal to the formal sector are largely excluded from the available policy tool kit. The key priorities of the IMF programmes were to restore financial and macroeconomic stability and reduce balance of payments imbalances. Policy priorities and goals related to the real sector, such as increasing productive investment, employment and diversifying the economy were non-existent.
- With regards to monetary policy, the burden of exchange-rate management and making the necessary adjustments was expected to fall entirely on these deficit countries individually, while ignoring the continuing problem of global imbalances.

² See Annex 1 for a summary of the key principles for economic recovery policy making enshrined in the International Labour Organisation’s “Global Jobs Pact”.



El Salvador



Background:

In the past few years, El Salvador has witnessed a serious deterioration of its fiscal position. Thus the current crisis struck El Salvador in a context of international currency shortage, and falling remittances, which add to its fiscal impairment. In 2008, the government feared an impending balance of payments crisis. As the situation swiftly worsened at the beginning of this year, the country had to resort to IMF lending.

The global crisis added to El Salvador's own fiscal situation seriously constrains the fiscal space available to implement counter-cyclical policies and increase spending. The IMF loan would have been expected to fill the fiscal gap and allow for increased government spending. However, independent observers and civil society feared from the start that the fiscal deficit targets set in the IMF programme would impair the country's needs in terms of tackling the crisis in the short run while also making progress towards its development objectives. Nelson Fuentes from El Salvadorian civil society group FUNDE said that "In the current situation, sometimes fiscal targets established by the IMF make it difficult to achieve social spending targets, including infrastructure spending. Moreover, past messages around fiscal discipline have been ambiguous and unclear. It is not clearly defined what sort of deficit the country can afford, what is the room for manoeuvre."

- ● ● "In the current situation, sometimes fiscal targets established by the IMF make it difficult to achieve social spending targets, including infrastructure spending. Moreover, past messages around fiscal discipline have been ambiguous and unclear. It is not clearly defined what sort of deficit the country can afford, what is the room for manoeuvre."

Nelson Fuentes, FUNDE

Having entered an agreement with the IMF, the government faces a challenging situation. As commitments from other international institutions are not yet forthcoming it still lacks the necessary resources to tackle the short term effects of the crisis while pursuing development objectives and respecting the fiscal deficit objectives of the IMF programme.

Recent Context for IMF Loan:

The IMF's Stand-by Arrangement (SBA) for El Salvador was approved in January 2009 and was a fourteen and a half month precautionary agreement. It aimed to signal macroeconomic stability in a pre-electoral context and sought to anticipate potential liquidity problems for (mostly foreign-owned) private banks. Resources made available to El Salvador through the SBA totalled approximately US\$800 million. This involved exceptional IMF quota access as well as frontloading. The sums involved were decided based on the total amount of banking system deposits in the country. The IMF Staff Report (IMF 2009c) mentions as main goals of the programme to "signal policy continuity in the face of electoral uncertainty, help sustain investor confidence, and boost the economy's resilience to shocks".

The Government, however, is not intending to draw on the funds. Its deal with the IMF is precautionary, allowing it to serve as a "liquidity buffer" in case of large bank deposit outflows in the context of the global financial crisis, but also to bolster stability in the context of national political uncertainty. At the time of the agreement the left wing party, Frente Farabundo Martí para la Liberación Nacional (FMLN), was expected to win the presidential elections for the first time since the civil war. This occurred on 15 March 2009. With the IMF precautionary loan programme, the government - which was close to bankruptcy - also sought the IMF's "seal of approval" which was expected to secure external financing from Multilateral Development Banks. Officials from the Ministry of Finance candidly said that "the reason we go to the Fund is to obtain its approval on the ability of the country to face future commitments with Multilateral Development Banks (MDBs). Agreements with the Fund are a

way to get an endorsement of our economic programme which guarantees to MDBs that El Salvador is in a position to receive loans to finance its development. This also allows us to be credible with rating agencies and international markets, but it also implies a number of commitments in terms of economic policy.”

Programme conditionality in the new IMF loans was limited to a prior action on the functioning of the interbank market; quantitative performance criteria on the fiscal deficit (quarterly ceilings and an annual deficit of 2.8% of GDP for 2009); and structural benchmarks on strengthening financial supervision through approval of a bill and maintaining reserve requirements on banks at current levels.

Fiscal and Monetary Policies:

By June 2009 it was clear that the previous government’s deficit target of 2.8% of GDP was by no means realistic. The new government has chosen to adopt counter-cyclical policies thus increasing government spending, which will bring El Salvador clearly “off-track” with its previous deficit targets. The IMF is indeed showing some temporary flexibility as it considers a new agreement with fiscal deficit figures around 5% (but with the commitment to bring the deficit down to 3.3% by 2011). The President of the El Salvador Central Bank agreed that the Fund is showing greater flexibility as “the [new government’s] anti-crisis plan includes counter-cyclical policies and will lead to a higher deficit, and the fact that the Fund is open to this shows that the institution understands that this type of policies are necessary in times of crisis, even though it means a higher fiscal deficit. This doesn’t mean the Fund would accept a deficit target similar to the US but there is some degree of openness.”

Regarding flexibilisation of fiscal and monetary targets, the Central Bank President is of the view that “the IMF has never been so soft before in negotiations with El Salvador.” Other officials have publicly stated that the IMF is showing some increased flexibility. However, it is unclear whether the IMF is actually allowing the country to run a higher deficit because it is more flexible than in the past, or the government decided to ignore the IMF target and the IMF is simply adjusting to this fact. To a large extent the new government “inherited” the fiscal deficit, and there seems to be recognition by all parties that the deficit is primarily due to the global economic slowdown, and not the result of fiscal mismanagement.

Inflation is not a concern at present and is not an issue in discussions with the IMF given that initial projections were around 3.75% and the current figure for 2009 is likely to be 3% (0% for 2010). El Salvador has previously given up any policy autonomy or manoeuvrability on monetary policy options as it has dollarized its economy.

According to its Central Bank President El Salvador is currently between a rock and a hard-place as “it has no choices in its macroeconomic policies: monetary policy does not exist because

of the dollarization and fiscal policy is limited because of the accumulated deficit – which leaves as the only option rapid, massive debt. This severely limits the ability to implement social policies. The current government has set as a priority shielding the most vulnerable sectors from the impact of the crisis – but in the current conditions there is little room for manoeuvre.”

● ● ● “The current government has set as a priority shielding the most vulnerable sectors from the impact of the crisis – but in the current conditions there is little room for manoeuvre.”

President, Central Bank of El Salvador

Social Safety Nets vs. Budget Restraint:

Significantly, the Government’s Letter of Intent (LOI) to the IMF is quite emphatic on the fact that fiscal deficit restrictions will not affect social protection spending. It mentions that the SBA measures “will be anchored on strict adherence to [...] a prudent fiscal policy, while expanding social programmes to mitigate the impact of the global growth slowdown”. In addition, “fiscal policy during 2009 will continue to target an increase in social spending and in the share of investment expenditure”.

The LOI specifically mentions expanding priority social expenditures (such as the cash transfer programme for rural municipalities (Red Solidaria) and higher public investment (new power plant, education and health capital spending). Public investment will be stable (2.6% of GDP for 2009 and 2.5% in 2010). The key problem is execution capacity: even if resources are available, problems with processes and bureaucracy mean the implementation of an investment plan will necessarily be slow. However social protection spending will be maintained. In terms of debt to GDP ratio, the LOI states that it is expecting to rise to 42% of GDP in 2009, but is expected to resume its downward path starting in 2010 (to 40%).

Although the Fund is not questioning social protection spending, officials from the Ministry of Finance expressed their unease during the negotiations with the IMF. They said “the Fund is not opposed in itself to the fact that we are prioritizing this type of spending. But it only analyses our government policies in terms of fiscal deficits and this is where they are coming from when negotiating with you. This is a problem as it does not give you a chance to explain that specific projects not only help revitalize the economy but also include a social and productive dimension. For instance the idea behind school uniforms is also to boost the artisanal sector (tailors, seamstresses) thus generating employment.”

In practice, due to deteriorating economic conditions and lower tax collections, in May 2009 the fiscal deficit reached 6.2% of GDP. However, with improvements in tax collection the final

figure for 2009 should be around 5%. This seems to be an acceptable level for the IMF, particularly because the trend is towards reducing the deficit.

Some of the envisioned deficit reduction is expected to be realized from an overhaul of the current subsidies system. Subsidies are currently ill-designed and lack effective targeting, and contributed to the government being near bankrupt by the end of 2008 (as it had to shoulder the burden of higher energy prices). The initial LOI mentions a “better targeting of subsidies”. It continues “by October 2009, we will eliminate the electricity subsidy to non-residential customers. We will continue to focus other subsidies to low-income groups. We expect these measures to yield at least 0.3 % of GDP during 2009.” Finance Ministry officials stated that “everybody agrees that subsidies need to be more targeted”, a view shared by Trade Union representatives who said that “subsidies in the country are ill-designed and not targeted, thus leading to a waste of resources.”

Labour Issues and Public Sector Wages:

According to William Huezo of Asociación General de Empleados Públicos y Municipales (Public and Municipal Workers Association), the current situation of high unemployment and underemployment is “the result of 20 years of privatizations and other neoliberal policies, which led to a 40% decrease in the number of jobs – including in sectors such as public works, social services, housing, and telecommunications. Other impacts included increased flexibility of labour laws and the increases in precarious employment and outsourcing,” as well as a sharp reduction in labour union freedoms and a shrunk civil service. As a result labour stability is not the rule anymore but rather the exception, with the proliferation of short term contracts. Moreover the “Convention 87 on Freedom of Association² was declared unconstitutional and has not been implemented. But with the recent change in government, there is a new window of opportunity.”

Current figures for public sector wages and salaries are more or less in line with figures in the initial agreement (Table 3 of the IMF Staff Report), which amounted to a freeze at 7.2% of GDP in 2009 until 2014. However, current Ministry of Finance (MOF) projections are 7.6% for 2009 and 7.8% for 2010. The MOF claims adjustments were made to take inflation into account, but admits it does not leave room for salary raises and promotions. MOF also argues that that these figures are based on the reality of available resources (rather than compliance with IMF demands), and that the ceiling might have to be adjusted upwards again if public sector unions can take advantage of the recent ratification of ILO C87 to increase the degree of official unionization of the workforce and thereby increase pressure on the government for increased wages. Trade union activists also seem to believe a freeze would lead to conflicts in the future: “If indeed a freeze of public wages is confirmed and inflation rises, this could deepen the crisis and generate conflicts between the government and public workers”. Reading between the lines, it seems the MOF

is anticipating this and planning to include a provision for this in its medium-term projections (2011-2012).

The combined effects of previous policies privatisations, adoption of “labour flexibilities” and a general lack of trade union freedom due to political factors in the country have led to a context in which labour conditions and Decent Work objectives have not been high on the national political agenda since the end of the civil war in 1992. Unemployment and under-employment continue to be a problem, and have led to a large dependence on inflows of migrant remittances. The new leftist government may try to respond to such concerns and labour demands; however the current economic state of public finances will restrict this response.

The Government’s current anti-crisis plan seeks to maintain existing jobs and create new ones in an effort to provide a buffer against the global economic crisis. However jobs created (mostly in sectors with questionable labour conditions) are likely to be of low quality and temporary, and therefore will fail to meet Decent Work criteria such as fair remuneration and social protection. A trade union activist claimed that “the jobs that will be created as part of the anti-crisis package will be temporary and precarious. They will not meet requirements in terms of benefits and demands of the labour movement. But jobs should be decent from the moment they are created in order not only to overcome economic problems but also to address social issues. Creating precarious, flexible jobs generate more social problems and discontent and can generate more labour conflicts. The problem is that job creation is seen by the government more as a way to generate income for people and act as a buffer against the crisis. For instance the construction of low income housing aims at creating jobs in the construction sector while offering housing opportunities for low income communities. But these will not be decent jobs.”

Small and Medium Size Enterprises (SMEs):

In 2008 there had been concerns that the constant issuance of short-term public debt by a cash-strapped government “crowded out” private sector from accessing available credit. However in 2009 access to credit for the private sector is more limited by bank risk aversion. The banks would rather purchase central bank bonds than make risky loans to businesses. Additionally, the increase in the number of foreign-owned banks is presenting greater hurdles for domestic companies. The foreign banks impose stricter loan eligibility criteria than those of domestically-owned banks. An official from the MOF said that, in line with past IMF advice, “El Salvador has lifted in the last decade almost all capital controls. This led to a marked capital outflow during the crisis” which has hardened credit access conditions for small and medium enterprises.

There is still a major need for the state to play a much more proactive role in providing affordable credit to SMEs. However, as Francisco “Chico” Martínez, ex-Technical Advisor for the

³ Convention 87 on Freedom of Association and Protection of the Right to Organise (1948). Available at <http://www.ilo.org/ilolex/cgi-lex/convde.pl?C087>

- ● ● The Government's current anti-crisis plan seeks to maintain existing jobs and create new ones in an effort to provide a buffer against the global economic crisis. However jobs created are likely to be of low quality and temporary, and therefore will fail to meet Decent Work criteria such as fair remuneration and social protection.

National Council for National Trade Union Unity, said "there is a lack of strategic vision for SMEs or for developing the capacity of domestic firms to react to international markets."

The Tax Structure:

The new Government is seeking to increase the tax base from its current size of 13.3% of GDP to 16-17% by 2014, according to the MOF. Achieving this will require more significant tax reforms than those currently on offer. But this is not on the agenda at the moment as political conditions are apparently not in place. Currently the government is planning to adopt non-controversial tax reforms to improve administration, close loopholes and fight tax evasion. It is planning to phase out the current drawback incentive (which was largely only benefiting foreign investors). While such reforms may generate some income, more ambitious reforms are needed to broaden the tax base and finance the country's development. Such increases to property and wealth taxes are not on the table for now due to private sector reluctance, and economic and political conditions.

There are proposals to create a more inclusive national dialogue process to bring different sectors around the table to discuss tax measures, with the ultimate aim of building a national consensus on the country's fiscal needs and choices and getting more broad-based agreement on a "fiscal pact". Civil society activists who have been advocating in the past for curbing tax evasion said that "curtailing tax evasion by 50% could generate US\$ 200 million per year." Also, "a reform of income tax, rather than VAT hikes, would generate new available resources. But first you need to improve tax administration and limit tax evasion. Tax incentives should also be looked into: they should be temporary, not permanent as they end up hurting the country. The government, private sector and international institutions should agree on a more progressive tax structure."

The Government's Letter of Intent is rather vague, stating only that it will seek improvements in tax policy and administration through the modernisation of customs, the strengthening of collection procedures on tax arrears and improvements in tax

auditing and enforcement. The IMF Staff report only mentions streamlining tax incentives for non-traditional exports.

Financing Options:

El Salvador has dollarized its economy, thus forfeiting any policy autonomy over its monetary policy instruments, and may need to raise interest rates in order to meet its current inflation target of 3% for 2009, and a lower inflation target of zero in 2010. The loosened fiscal deficit reduction targets have allowed El Salvador some degree of additional fiscal space within which to adopt counter-cyclical spending and increases for targeted social programmes. The need to get the deficit back down to 3.3% and inflation to zero by 2011 is questionable, and may unnecessarily limit possibilities for increased GDP output, public investment and job creation.

In terms of accessing external financing, the approval of the SBA loan will open the door to El Salvador receiving new loans from the World Bank and the Inter-American Development Bank (IDB).

In September 2009 El Salvador also received a new allocation of 138.8 million Special Drawing Rights (SDRs) into its account at the IMF, equalling about \$216.9 million. This allocation, which was part of the G20 global economic stimulus plan, will add to the country's official level of reserves and automatically increase the asset/liabilities balance sheet of El Salvador's central bank by suddenly making it appear more creditworthy. This could improve El Salvador's access to more affordable credit on international capital markets. Additionally El Salvador can choose to switch any amount of its new SDRs into a hard currency and use it for any number of purposes at the cost of only a small user charge, and without any new IMF policy conditionalities.

Ethiopia



Recent Context for IMF Loan:

Ethiopia has achieved robust real GDP growth averaging 11.5 % per annum during the last five years. The strong growth is sustained mainly by increased agricultural production, public-private investment in construction, manufacturing, power, tourism, and financial services. While agriculture will continue to be the major contributor to economic growth, given substantial recent public investment in irrigation schemes, non-agricultural sectors are also playing an increasing role.

Ethiopia has faced a turbulent external economic environment in the past two years, stemming from sharp movements in import prices in 2008 and then the global slowdown in 2009. Surging import prices in 2008 helped reduce its international currency reserves to US\$900 million (1.2 months of imports) by mid-2008. The government tried to smooth oil price increases for consumers by increasing a subsidy, contributing to an exceptional jump in inflation. The annual average inflation stood at about 15.8 % in 2006/07 and increased to 25.3 % in 2007/08. The global recession is now putting renewed pressure on Ethiopia's balance of payments position because of weaker export receipts, particularly the fall in its coffee exports, and a drop in remittances inflows and slowing inward foreign direct investment (FDI).

The unexpectedly high oil and fertilizer prices have also undermined the balance of payments. The rapid economic growth in recent years has been supported by strong exports, which have registered an annual average growth rate of 20.9 % during the last two years. However, with import costs raising rapidly, the country's current account as well as the overall balance of payments deficits have widened and its international reserves have come under heavy pressure.

In the context of negotiations with the IMF to approve the January 2009 programme, the authorities began implementing a macroeconomic adjustment programme in late 2008. Down from a peak of over 60% in mid-2008, inflation is starting to stabilise in 2009 aided by falling food price levels. Foreign reserves, helped

by increased donor assistance, have increased to some US\$1.5 billion (1.8 months of import cover) by end-June 2009.

As the government met these targets the IMF approved a \$52.3 million loan programme for Ethiopia in January 2009 under the rapid-access component (RAC) of the Exogenous Shock Facility (ESF). Following this, in August 2009, the IMF approved a 14-month loan arrangement, also under the Exogenous Shocks Facility (ESF). This loan, totalling US\$240.6 million, primarily aimed to help Ethiopia rebuild its dwindling foreign exchange reserves and cope with other effects of the global recession on its balance of payments.

The IMF programme for 2009/10 seeks to address the strains on the balance of payments and keep inflation low. Balancing conflicting objectives—limiting inflation, rebuilding reserves, accommodating higher capital outlays, unwinding recent real exchange rate appreciation—the programme calls for a continued tight fiscal stance to keep the fiscal deficit under 2% of GDP, a slowing of the pace of monetary growth, and gradual real exchange rate adjustment following the initial steep depreciation of the birr in July 2009. The budget for 2009/10 envisages some easing of the tight limits on public spending instituted in 2008, financed by a mix of external and domestic borrowing. The programme calls for public sector domestic borrowing to be contained at 3% of GDP, with the government acting to improve controls over borrowing by public enterprises and monitoring carefully external debt levels to ensure debt sustainability. The authorities are committed to crafting a tax reform strategy aimed at reversing the recent decline in the tax-to-GDP ratio.

On the fiscal front the Government's LOI states: "the government is committed in its revised budget to not borrow domestically from the banking system on net basis in the current fiscal year compared with the originally budgeted level of domestic borrowing of 1.5 % of GDP and domestic borrowing of 2.7 % of GDP in 2007/08. To achieve this, considerable efforts are being made to mobilize domestic revenue and reduce lower priority expenditure. Along with lowering the government's ceiling

on domestic borrowing, we will closely follow the activities of public enterprises and reduce their domestic borrowing to between 4–8 billion birr (no more than 2.5 % of GDP) in 2008/09.”

Monetary policy focuses on entrenching single-digit inflation and limiting broad money growth to 17 % for 2009/10. The National Bank of Ethiopia seeks to enhance its control over reserve money by systematic use of the regular Treasury-bill auctions to manage liquidity. In the monetary area, minimum deposit interest rate was increased and reserve and liquidity requirements of banks rose to restrain domestic credit expansion and monetary growth. The programme expects to rebuild international reserves to 2½ months of imports by 2010/11.

Ethiopian NGOs confirmed that “The loan has been negotiated directly with the government and the Central Bank, without the involvement of other actors, either donors or CSOs.”

● ● ● “The loan has been negotiated directly with the government and the Central Bank, without the involvement of other actors, either donors or CSOs.”

Ethiopian NGOs

Fiscal or Monetary Policies:

The IMF loan contains a provision about increasing exchange rate flexibility, which implies possible further devaluation of Ethiopia’s currency (the birr). Since January 2009, the birr has lost 20% of its value against the US dollar and devaluation will continue in the next months. The Government’s LOI states: “the government has continued to create a conducive environment for enhancing exports and private remittance transfers. The Government is committed to introduce greater flexibility in the foreign exchange market and will continue undertaking structural reforms to improve productivity and external competitiveness.”

Although the IMF supports the depreciation of the birr to help correct the balance of payments imbalance, others suspect other motivations. One interviewee said that devaluing the currency could help with exports, but this is unlikely because Ethiopia’s main exports are coffee and leather, and global demand for both commodities is elastic and both have already been hit by the global recession. Another explanation for the devaluation is that by making imports more expensive, the government is trying to boost domestic demand and incentivise Ethiopia’s private companies. Additionally an EC official suggested that the devaluation could also be a means of extracting more value from aid money. Ethiopia is one of the major recipients of ODA and it received close to US\$ 1bn in 2007/2008, a figure which could increase to US\$ 1.4 in 2008/2009. This also relate to the issue of remittances inflows, as Ethiopia also has a 2m strong

diaspora (1m in the USA) and devaluing the currency increases the value of remittances at home.

● ● ● In July 2009, the Government of Ethiopia increased the projected number of people requiring emergency food assistance [...] to 6.2 million people.

Neither the Government’s December 2008 LOI, the January 2009 IMF Country Report (No. 09/34) nor the August 2009 PIN are available publicly, making it impossible to know the IMF’s projected targets beyond 2010, so it is not clear how far the IMF intends to go in terms of macroeconomic tightening in the next few years. However, according to the WB/IMF 2009 Global Monitoring Report, the global economic recession in developing countries will be felt until at least 2012.

Overall the IMF programme is very orthodox. All of the hallmark components of conventional IMF austerity are contained in the IMF programme for Ethiopia: eliminating fuel subsidies; tightening fiscal policy; eliminating domestic borrowing; reducing public enterprises domestic borrowing; and tightening monetary policy. As Lawrence Egulu, ILO economist in Ethiopia, said, “My feeling is that the IMF is prescribing prudence, when an expansionary policy could make more sense.”

Social safety nets vs. Budget Restraint

Social Safety Nets vs. Budget Restraint: Consecutive seasons of failed rains, combined with a rapidly growing population, increased inflation, endemic poverty, and limited government capacity have led to chronic food insecurity and water shortages in large areas of Ethiopia, including the Somali Region and parts of Oromiya, Afar, Tigray, Amhara, and Southern Nations, Nationalities, and Peoples (SNNP) regions. The USAID-supported Famine Early Warning Systems Network (FEWS NET) anticipates that the delayed onset and poor performance of the March to May 2009 *belg* rains⁴, combined with the widespread failure of the previous three rains, will result in a below-normal October to January *meher* harvest in eastern crop-producing areas of Ethiopia. Significant humanitarian challenges, including flooding, conflict, malnutrition, and delayed food deliveries, confront populations in many areas of the country. In the Somali Region insurgent activity and security operations have disrupted trade networks, and restrictions on the movement of people and livestock combined with the failure of past rains have exacerbated food insecurity. In July 2009, the Government of Ethiopia increased the projected number of people requiring emergency food assistance between June and December 2009 to 6.2 million people. From January to June 2009 emergency food assistance beneficiary figures totalled 4.9 million people. In addition, an estimated 7.5 million chronically food insecure beneficiaries currently receive assistance from

⁴ The short or *belg* rains take in place on February-April and the big or *meher* rains begin in late June and end in mid-September.

the Government-managed Productive Safety Net Programme (PSNP) through employment opportunities or food assistance and cash transfers (USAID 2009).

In the past, the Oil Stabilisation Fund was in charge of regulating domestic fuel prices in order to smooth fluctuations for consumers. High oil prices in 2008 translated into losses for the Oil Stabilisation Fund of 1.5% of GDP. In October 2008 the government eliminated domestic fuel subsidies. This was a condition of the IMF. Now fuel prices are reviewed monthly, but are always kept above world prices in order to repay the debt. Eliminating the subsidy has immediately translated into higher energy prices for consumers. The IMF document mentions that, according to the WB, fuel subsidies are not necessarily pro-poor because rich people capture most of the benefits. However a representative from a local business pointed out that “kerosene prices have increased by 50%, the highest among all fuels. Kerosene in Ethiopia is used by 42% of the population in Addis Ababa and 14% at a national level for cooking and heating. The elimination of the fuel subsidy has had a direct impact on households’ budgets.” Moreover, the use of kerosene has recently started to decrease, especially after the fuel subsidy was eliminated. Most people who stopped using kerosene moved to charcoal, or in most cases wood. This can have severe consequences not only for the environment but also for air pollution within the households.

Labour Issues and Public Sector Wages:

Trade unions, just like other non-state actors in Ethiopia, face a complex and harsh political environment. The Confederation of Ethiopian Trade Unions (CETU) represents around 300,000 workers, but its significance as a political actor has diminished in recent decades. Labour law has not been significantly updated since 1968. It is in line with most ILO Conventions, but contains several loopholes and loose definitions which offer plenty of room for interpretation and intrusion.

Mechanisms for trade union participation in law formulation and policy making are in place, but trade unions are generally called in late in the consultation process or are left out of the process⁵. The political context and lack of true representation have resulted in low capacity within the trade unions. Interviewees from the trade unions, for instance, were largely unaware of the Global Jobs Pact agreed by all members of the International Labour Organisation (ILO) on June 19, 2009, and were not clear whether Ethiopia’s government intended to implement its recommendations. Moreover, high unemployment levels and the importance of seasonal and informal labour contribute to further undermine the role of Ethiopian trade unions.

These problems have prevented civil society groups and trade unions participating in or having a say on the reforms that the government agreed to implement under the IMF programme, contravening the principles in the Decent Work agenda which call for social dialogue involving all social partners to shape

economic and employment policies on citizens economic and social rights, including their right to social protection.

One of the issues trade unions are active on is the pursuit of a minimum wage law in Ethiopia. Some workers in the public sector and public companies have their own minimum wages, but there is no minimum wage at a national level. Trade union activists consulted said that “together with some MPs, we elaborated and submitted a proposal for a minimum wage to the government, but we never heard anything back from them.”

High economic growth over the last few years did not contribute much to advance the Decent Work objectives. The impact of the economic crisis, rising unemployment and the current political situation limits opportunities to make progress in the short term.

Small and Medium Sized Enterprises (SMEs):

Power outages, foreign exchange shortages and limits on bank lending resulted in Ethiopia’s business climate deteriorating over the past four months, according to Eyessus Work Zafu, president of the Addis Ababa Chamber of Commerce and Sectoral Association, the country’s largest business association. Manufacturing industry, which accounts for about 5 % of Ethiopia’s output, has contracted during the past year, probably due to power outages. Banks and insurance companies have been hampered by inflation and government restrictions on lending. Supply shortages led the state-run Ethiopian Electric Power Co. to begin blackouts in February and since June, the utility has provided power to customers only every second day. At the same time, Ethiopia’s central bank has been rationing foreign exchange in an effort to defend its currency, the birr. The resulting shortage of foreign currency has caused delays in imports of raw materials and consumer goods.

The government has also capped lending and increased reserve requirements for banks in an effort to slow inflation, which peaked at 64.2 % in July 2008. Consumer prices declined by 3.7 % in July 2009, according to the country’s Central Statistical Agency (McLure 2009).

GDP growth in Ethiopia has been driven by high public expenditure. According to the EC Aid Effectiveness Expert in Ethiopia “there are powerful public companies which were fuelling growth, together with direct public investment by the government. This has helped with growth, but has also resulted in constraints for private businesses to expand. The main aim of the IMF conditions on decreasing public spending and domestic borrowing could be to try to address this issue and opening more space for private investment.” Although private investment is fundamental to boost economic growth, decisions to prioritise private investment in some African countries have led to the “double course” of effectively decreasing public and private investment. Research from the International Poverty Centre of the United Nations has shown

⁵ ECO (2008) Updated Mapping Study of Non-State Actors In Ethiopia. Addis Ababa, Ethiopia. Available at www.ilo.org/wcmsp5/groups/public/---ed_emp/---ifp_skills/documents/publication/wcms_106509.pdf

that “initial hopes for privatisation were so high that donor spending on infrastructure fell in the expectation that the private sector would take up the slack. [However, the reality has been that private investment has been limited by] lack of interest from private investors. Hence, African countries have been caught in a terrible bind. Not only has donor financing of public investment declined but also private investment has followed suit. Moreover, many governments have had to adopt fiscal austerity programmes, which have led to further declines in domestic public investment in utilities.”⁶ Therefore, limiting public investment should be carefully assessed against realistic prospects of whether the private sector will take up the space emptied by the withdrawal of the state.

Financing Options:

In terms of domestic financing options, the IMF programme’s fiscal policy tightening seeks to sharply reduce domestic borrowing, particularly domestic borrowing by public enterprises.

In terms of external options, in September 2009, Ethiopia received a new allocation of 116.8 million Special Drawing Rights (SDRs) into its account at the IMF, equalling about \$182.5 million. This allocation, which was part of the G20 global economic stimulus plan will add to the country’s official level of reserves and automatically increase the asset/liabilities balance sheet of Ethiopia’s central bank by suddenly making it appear more creditworthy. This could improve its access to more affordable credit on international capital markets. Additionally, Ethiopia could choose to switch any amount of its new SDRs into a hard currency and use it for any number of purposes at the cost of only a small user charge, and without any new IMF policy conditionalities.

In terms of another new major source of external financing, China has made considerable foreign investments in infrastructure in Ethiopia. The Chinese are building roads and hydroelectric dams and are financing a \$1.5bn (€1.1bn, £910m) expansion of the state-owned mobile telephone network through credit lines. That makes ZTE, the Chinese telecommunications company, the de facto monopoly supplier - the kind of deal that western companies such as Siemens had in Nigeria in the past but complain about now. In total, Chinese banks and companies are providing more than \$4bn in credit lines and “tied-aid” to Ethiopia, a figure that places Beijing among the country’s foremost funders (Wallis 2009).

- ● ● Kerosene in Ethiopia is used by 42% of the population in Addis Ababa and 14% at a national level for cooking and heating. The elimination of the fuel subsidy has had a direct impact on households’ budgets.

⁶ McKinley, Terry and Bayliss, Kate: “Privatising basic utilities in Sub-Saharan Africa: the MDG Impact”, International Poverty Center, January 2007. Available at <https://eprints.soas.ac.uk/4536/2/IPCPolicyResearchBrief3.pdf>

Latvia



Recent Context for IMF Loan:

The economic downturn has been much deeper than anticipated. Real GDP has fallen by 18 % year-on-year in the first quarter of 2009. The main reason was the bursting of the credit and real estate bubbles and a collapse of domestic demand. Additionally, the global economy has declined far faster than was expected back in December 2008 when the IMF first developed a Stand-by Arrangement (SBA) loan programme for Latvia. GDP is still projected to fall by about 4 % through 2010, and it will take time for Latvia's industry to regain competitiveness.

The downturn has significantly weakened government finances, causing the fiscal deficit to widen by much more than was originally agreed with the IMF and EU and the Government in January. The fiscal adjustment needed in Latvia takes place in the context of the country's desire to adopt the euro as soon as possible, which requires a budget deficit of less than 3 % of GDP. The revised fiscal framework aims to keep the deficit in 2009 below 13 % of GDP and reduce it to the limit of 3 % as soon as possible thereafter.

In deciding to maintain the peg with the euro, the authorities have chosen a path that puts a heavy burden on fiscal policy in the short term. The economic recovery and adjustment can take place in two ways – either through devaluation of national currency or deflation of costs. Latvia chose for adjustment of costs – reducing wages and social protection payments thus reducing purchasing power and cutting down on consumption.

Both the Central bank and the government are committed to maintaining the fixed exchange rate of Latvian lats against the euro. The Government has given strong arguments against the

- ● ● Latvia is dependent on international loans to fund its budget deficit and has had to make harsh decisions to obtain the money.

devaluation of national currency related to various factors:

- Devaluation is applied in order to stimulate exports and to allow for a recovery of the domestic market. It will take time until Latvia develops its export sector – and most exports are to other Baltic countries, whose markets are also declining.
- Most commercial loans and also personal loans are in euros (about 85%) and a devaluation would have a devastating impact on the companies and households with these loans.

Features of IMF Programme:

The IMF and Latvia reached an understanding on July 27, 2009 on a staff-level agreement for the first review under Latvia's Stand-By Arrangement (SBA) with the IMF. The agreement was endorsed by the IMF's Executive Board on August 27, 2009, clearing the way for the disbursement of about €195.2 million (US\$278.5 million). This will bring the level of total disbursements from the IMF under the SBA loan programme to €780.7 million. This is in addition to the €1.2 billion tranche made available to Latvia in July by the EU. One of the key revisions from the original agreement that had been reached earlier in January is that the new fiscal deficit ceiling has been revised upward to up to 13 % from the original target of 5 %. This is intended to allow for 1 % of GDP in additional resources for social safety nets. The authorities are firmly committed to putting the budget deficit on a rapidly declining path starting from 2010 and have outlined measures to this effect.

Fiscal and Monetary Policies:

As per the most recent agreements reached by the Government, the EC and the IMF, the fiscal deficit for 2009 is 10% of GDP; for 2010 it is 8.5%; for 2011 it is 6%; and by 2012 it is 3%. Considering the commitment of Latvia to introduce the euro in 2013, it is projected that by then Latvia should be in compliance with the EU fiscal deficit requirements. Latvia is dependent on international loans to fund its budget deficit and has had to make harsh decisions to obtain the money. It has decided to slash its budget by 500 million lats (\$1 billion) this year and has said it will make similar reductions in each of the next

two years. The cuts have included further reductions in public sector salaries and a 10 % reduction in pensions.

Regarding monetary policies, the primary goal of the Bank of Latvia is to maintain a fixed exchange rate of Latvian lats against the euro at the level of 1 EUR = 0,702804 LVL. Inflation has not been a recent concern and indeed, deflation has been more of a concern in the crisis. Thus, there is no inflation targeting. The inflation rate is determined currently by the decrease in consumption – by the fall of 2009, the inflation rate is expected to be negative as the consumption and production prices go down. The annual inflation rate in 2009 is expected to be on the level of 3.0 – 3.5%.

Additionally, the exchange rate of Latvian lats is fixed against the euro, which severely limits the ability of the government to apply more active monetary policy options. The tools that the Central Bank has used are related to requirements on reserve levels for commercial banks and also determining the interest rate for inter-bank lending operations. One of the contributing factors to the crisis was the problem of the vulnerabilities posed by the problem of currency-mismatches in that many borrowers in Latvia took loans in euros. In July of 2009, for example, the interest rates for commercial loans in Latvian lats were 14.5% (for individuals it was 17.7%) whereas for commercial loans in euros the interest rate was 6.7% (for individuals the interest rate in euros was 5.4%).

Latvia's banks are also suffering from a depletion of deposits as non-residents withdrawn their holdings. Non-resident deposits declined 6 % in the first quarter and are projected to decline by 25 % in 2009 and continue to slide in 2010, according to a report by the European Commission. Resident deposits denominated in lats declined 8 % in the first quarter, and may fall 35 % in 2009. Deposits denominated in euros rose 12 % in the first three months, according to the Commission.

Regarding the question of increased IMF "flexibility", the IMF states that the targets in relation to the budget deficit were derived from economic forecasts and also taking into account Latvia's plan to introduce the euro and comply with the Maastricht criteria. The IMF is concerned that the budget deficits this year and next year will be higher than the officially agreed target of 13% of GDP. However, the most important factor from the perspective of the IMF is that the budget deficit should be set on a declining path. Zanete Jaunzeme-Grende, Chairperson of the Board of Latvian Chamber of Commerce and Industry, was sceptical about the use the government could realistically make of the IMF's flexible stance as "the main problem is that there is hardly anybody (in the government) who has the capacity to put forward strong arguments to question the IMF's policy advice, for instance, on tax reforms or on whether the currency needs to be devalued."

Once the deficit target was agreed, the IMF permitted the Latvian government to decide where and how to achieve the necessary

budget cuts. In the first stage of negotiations the IMF also mentioned the possibility of devaluing the national currency. Then this option was ruled out by the Bank of Latvia and the Latvian Government, and the IMF accepted its arguments. Similarly the IMF also suggested cutting pensions but the Latvian government insisted that pensions could not be cut. However, when the economic situation worsened, the government itself concluded that cutting pensions was inevitable. Thus, the IMF is not applying any standard procedures but allows the national government to propose measures, as long as it will lead to a steady decline in the budget deficit.

Social Safety Nets vs. Budget Restraint:

The original IMF programme that was agreed with the Government back in December 2008 ensured that social protection spending would not be cut. But later revisions to the agreement ended up calling for cuts in all areas. The IMF claims to have worked with the Government and the World Bank on a comprehensive strategy to improve social safety nets. Measures were agreed to include guaranteed minimum income payments covering health co-payments for the most vulnerable, increasing funds for emergency housing support, protecting schooling for six-year-olds, and promoting job creation through active labour market policies.

There will be substantial budget cuts applied to the education sector – wages will decrease by 40% compared to the 2008 level. Apart from that there is also a rush to reform and close down many schools.

Similar trends are also visible in the health care sector. Pensions and sickness payments, as well as support for new parents were cut. A reduction of 10% was applied to pensions. Sick-leave payments were also reduced to a maximum period of 26 weeks instead of 52 weeks. Cutting pensions was a sensitive issue. The government had earlier been very explicit in promising that pensions would not be cut but a few days after local, European Parliament and national elections the government approved pension reductions.

Cuts are also being implemented across all levels of the civil service and public administration. Business entrepreneurs demanded that public administration should be reduced and eventually they reached an agreement with the government that staff in public administration should be cut by 30%. This substantial cut may endanger the ability of public administration to fulfil its obligations. "People are already counting centimes, not lats, thus we cannot agree to cut pensions any further. More than 90% of pensioners receive less than 200 lats and this does not allow people to cover the basic needs for survival," said Aina Verze from the Pensioners' Federation.

- ● ● “More than 90% of pensioners receive less than 200 lats and this does not allow people to cover the basic needs for survival.”

Aina Verze, Pensioners' Federation.

The IMF states that it has been pushing the Latvian government to support the social security nets and allocate sufficient funding for such measures, including for unemployment benefits, guaranteed minimum income and emergency housing. Regarding pensions, further cuts may be applied in 2010 if necessary to maintain the same percentage from the budget expenditures.

Labour Issues and Public Sector Wages:

The IMF programme contains an indicative target (non-binding) for the public sector wage bill, but this is not considered a performance criterion that will affect future IMF financial disbursements.

There is a minimum wage law in Latvia, of 180 Latvian lats per month (about €256). The IMF has not looked into the issue of reducing the minimum wage level. In June 2009 there was draft proposal issued by the Ministry of Finance to reduce this minimum wage level to 140 Latvian lats per month (about 200€ gross per month, and just over 150€ net a month), which is significantly below the subsistence levels (set by Latvian Central Statistical Bureau at the level of 170,13 Latvian lats). In 2009 about 9% of all workers were receiving the minimum salary. However the Latvian Free Trade Union and also the Latvian Confederation of Employers strongly opposed this proposal. After negotiations with social partners the rest of the government withdrew its support for the proposal.

Despite the fact that Latvia has ratified the ILO Minimum Wage Convention, the current minimum wage fails to comply with the principles of the Convention such as considering the needs of the employee's family and living costs of the country. The current minimum wage also contradicts government policy from 2003 which envisaged a gradual increase of the minimum wage to reach 50% of the average salary level by 2010.

Employers' associations and other business organisations were strong advocates for decreasing the size of the public sector in the economy – both by reducing the number of people employed in the public sector and also reducing their wages. There was an agreement reached between employers and the Government about cutting the number of employees in public administration by 30%. Regarding other employees in the public sector – the wages in the field of education have been substantially cut (as much as by 40%).

Small and Medium-Sized Enterprises (SMEs):

Latvia's economy is small and dependent on export markets, making it particularly linked to other two Baltic countries (Estonia and Lithuania), but also to Germany and Scandinavian countries. Therefore, economic downturns in other European markets are a serious constraint for growth of the export sector and thus also to increasing employment.

In the current situation access to commercial loans for SMEs is limited. The interest rate is only one of the issues. Other factors are that there are many domestic companies who can no longer meet the new more stringent financial stability criteria for accessing bank loans, and the liabilities of many companies have increased or the value of their assets has decreased due to the crisis. Thus, many SMEs are unable to get access to additional loans.

Tax Structure:

The fiscal adjustments envisioned in the IMF programme will require both expenditure cuts and tax revenue increases. Latvia has a tradition of very low taxation, but now is compelled to bring revenues more in line with expenditures. As a first step in this direction, IMF programme measures proposed for 2009 and 2010 to include improvements in tax administration and a broadening of the real estate and personal income tax. The VAT rate will be further increased from 21% to 23% (after an increase from 18% to 21% in 2009). The IMF claims that it wants the Government to take steps to ensure that the rise in personal income taxes does not disproportionately fall on the poor. Latvia has had a flat tax rate in place since 1997, and the IMF has suggested that making it more progressive would bring the country in line with most other countries in the EU and would reduce the tax burden on low-income groups. The problem of substantial tax evasion remains. The IMF advised introducing a real estate tax and a capital gains tax.

The tax base is expected to widen starting from 2010. There are several proposals to be discussed now in the government and the package of proposals will be passed on to the parliament. One of the most important introductions is real estate tax – applying to housing. There are several proposals now discussed on what should be the tax rate and whether to apply it to low-income housing, which is currently not taxed. There are substantial changes to private income tax planned: applying tax to bank deposits; taxing the income from selling of own forest or wood materials; increasing tax rate for self-employed persons from 15% to 23%. Also, the introduction of a progressive income tax is under discussion.

Tax evasion is worsening as the crisis unfolds. Companies informally claim that they resort to tax avoidance to avoid going bankrupt. The grey economy is also growing and an increasing

number of employees in the “black” market are not paying taxes either. “If everybody paid taxes in Latvia, there would be most probably enough money for pensions” said Zanete Jaunzeme-Grenede from the Latvian Chamber of Commerce.

The IMF claims that this is the Latvian’s government responsibility, but also that this issue should be addressed through technical assistance on tax administration. Ieva Plaude, entrepreneur and owner of the Kolonna group, said that “the increase of the VAT [advised by the IMF] was a mistake. It led to an increase of the grey economy.”

Financing Options:

Current external sources of funding include: The European Commission (7.5 billion €); the IMF (1.7 billion €); the World Bank (400 million €); Denmark, Sweden, Finland and Norway (collectively, 1.8 billion €); the European Bank for Reconstruction and Development (EBRD), Czech Republic and Sweden (500 million €). However, other donors, including the EU, continue viewing the IMF “seal of approval” as a prerequisite for disbursing their own funds. And the Latvian government is well aware that there are not many options that it can resort to. The Minister of Interior, Linda Murniece, expressed it boldly when she said “if the police has to stop working (because of required budget cuts), then it will have to. What else can we do if we need the loan?”

In terms of external options, in September 2009, Latvia received a new allocation of 120.8 million Special Drawing Rights (SDRs) into its account at the IMF, equalling about \$188.8 million. This allocation, which was part of the G20 global economic stimulus plan to disburse \$250 billion in new SDRs to all IMF member countries, will add to the country’s official level of reserves and automatically boost the balance sheet of Latvia’s central bank by suddenly making it appear more creditworthy. This could improve its access to more affordable credit on international capital markets. Latvia could choose to switch any amount of its new SDRs into a hard currency and use it for any number of purposes at the cost of a small user charge, and without any new IMF policy conditionalities.

● ● ● “If the police has to stop working (because of required budget cuts), then it will have to. What else can we do if we need the loan?”

Linda Murniece, Minister of the Interior



© Aida Ozola – People queuing for free food in Latvia; the situation is expected to get worse in the autumn and winter with unemployment rates rising and no adequate social safety nets in place.

Part 3

The IMF, social protection and decent work: what has changed?

Fiscal policy

Regarding fiscal policy, in all three cases it appears that the IMF agreed budget deficit levels with borrowing governments. The IMF, however, left governments flexibility to decide how these cuts are to be achieved.

The IMF is currently accepting looser fiscal policies than it has allowed previously. The IMF may simply have had no choice but to accept the reality of higher budget deficits at this time. However, El Salvador's budget deficit target of 3.3% by 2011, Ethiopia's target of under 2% of GDP, and Latvia's target of 3% by 2012 all show a consistency with standard IMF formulae. There is no empirical evidence to suggest moderately higher budget deficits lead to inflation or macroeconomic instability, and yet such low budget deficit precludes governments from increasing public spending and investment in job creation that might otherwise be possible.

In the case of El Salvador, Oscar Anaya, Director of Economic and Fiscal Policy in the Ministry of Finance, explained: "The Fund is not opposed in itself to the fact that we are prioritizing this type of (social) spending. But the Fund sees things in terms of deficits and this is where they are coming from when negotiating with you. This is a problem as it does not give you a chance to explain that specific projects not only help revitalize the economy but also include a social and productive dimension. For instance the idea behind school uniforms is also to boost the artisanal sector (tailors, seamstresses), thus generating employment."

For highly indebted countries like El Salvador, more expansionary fiscal policies need to be accompanied by greater domestic resource mobilisation. It is commendable that the IMF has in some cases supported the implementation of more progressive taxation (Latvia). However, much more remains to be done in El Salvador and Latvia to make taxation more progressive and avoid tax evasion. Tackling tax evasion may enable these governments to enhance their fiscal position in a more robust and sustainable fashion in the longer-term.

Social protection spending

In all cases, there was insufficient involvement of line ministries about structural reforms and budget cuts. Access to negotiations with the IMF and the EC was mostly limited to Prime Ministers, Ministers of Finance and top civil servants from Ministries of Finance. Line ministries were often only informed ex-post about what kind of cuts are needed.

Institutional mechanisms for enabling a broader group of public stakeholders to participate in more inclusive processes for macroeconomic policy making were absent in El Salvador

and Ethiopia. In the case of Latvia, the EC and IMF criticized the government for a lack of broader public consultation with social partners in discussing amendments to the budget law for 2009 and drafting the Letter of Intent. Since then, the government has established a "reform management task force" that includes Ministry of Finance officials; representatives of the Latvian free trade union; the Head of Budget and Finance commission of the Parliament; the Latvian Employers association; the Latvian chamber of commerce and industry; the Latvian municipality association and others. This task force is working on proposals of the draft budget for 2010 and is also elaborating proposals for structural reforms. There have been also bilateral meetings between the IMF and the Latvian chamber of commerce and industry.

In general, there was a tendency of the IMF and finance ministries to continue to view public sector spending and public sector workers only as "costs" and not as providing benefits to the economy or society. As Francisco "Chico" Martínez, Ex-Technical Advisor for the National Council for National Trade Union Unity in El Salvador explained: "The problem is we think in terms of overall cost of the state apparatus instead of trying to attract the type of public worker we want (which would mean competing with private sector salaries) to ensure quality service. Public service is seen (by IMF and MOF) in terms of cost, not in terms of service quality. While this was to be expected from the previous government, the new [left-wing] government should take immediate measures in this respect."

- ● ● "There was a tendency of the IMF and finance ministries to continue to view public sector spending and public sector workers only as "costs" and not as providing benefits to the economy or society."

Francisco Martínez, ex-technical advisor for the national council for Trade Union Unity, El Salvador

Monetary policy

In cases of El Salvador (dollarized) and Latvia (hard-pegged to the euro), monetary policy autonomy is greatly constrained, limiting options for using monetary policy tools or the use of more expansionary monetary policy options. In the case of Ethiopia, the IMF did target reducing inflation, albeit to a relative moderate rate of 13 %, which is looser than the standard IMF target of 5-7 %.

In addition, in all countries examined for this research, the burden of exchange-rate management and making the necessary adjustments was expected to fall entirely on these

deficit countries individually, while ignoring the continuing problem of global imbalances. Exchange rate fluctuations and volatility is simply accepted as a given, and countries are expected to take steps to adjust to the market's vicissitudes. No steps are being taken to address structural imbalances in the global economy through establishing mechanisms for multilateral exchange rate coordination, leaving a gaping hole in the current global financial architecture.

IMF programmes prioritized financial stability priorities over implementing a supportive regulatory environment conducive to job creation through sustainable enterprise creation and development.

Creating decent jobs

The types of industrial policies required to bring in companies and workers from the informal to the formal sector (access to subsidized credit, loan guarantees, export subsidies, grants for research and development, mechanisms for acquiring new technology) are largely excluded from the available policy tool kit in all the countries assessed.

In all three cases, the key priorities of the IMF programmes were to restore financial and macroeconomic stability and reduce balance of payments imbalances. Policy priorities and goals related to the real sector, or productive sector, such as targets for achieving higher GDP growth, increasing productive investment, increasing employment and diversifying the economy were non-existent. The IMF programmes prioritized financial stability priorities over real sector objectives, such as boosting effective demand and helping maintain wage levels including via macroeconomic stimulus packages. Although El Salvador and Latvia attempted small stimulus efforts, these were constrained by the priority goals to stabilize the financial sectors and get external creditors repaid.

In all three cases the IMF programmes failed to prioritize helping jobseekers by implementing effective, properly targeted active labour market policies or actively investing in workers' skills development, skills upgrading and re-skilling to improve employability.

- ● ● The IMF programmes prioritized financial stability priorities over supporting public employment guarantee schemes for temporary employment, emergency public works programmes and other direct job creation schemes which are well targeted, and include the informal economy.

Generally, the IMF programmes prioritized financial stability priorities over supporting public employment guarantee schemes for temporary employment, emergency public works programmes and other direct job creation schemes which are well targeted, and include the informal economy. Likewise, the



© ILO

Part 4

Conclusions and
recommendations

The assessment of the three IMF programmes in El Salvador, Ethiopia and Latvia reveals that there has been some easing of fiscal targets compared to historic IMF positions. This allows for slightly higher budget deficits on a temporary basis. As always, though, the devil is in the detail, and the very narrow fiscal space – and often constrained monetary policy choices – has effectively limited the chances of these governments to adopt more decisive counter-cyclical monetary and fiscal policies.

- ● ● In all three cases examined, very few of the Decent Work Agenda principles or Global Jobs Pact policy initiatives are being adopted or supported as priorities.

In all three cases examined, very few of the Decent Work Agenda principles or Global Jobs Pact policy initiatives are being adopted or supported as priorities; and, although increased social protection spending seems to be consistently supported by the IMF, required budget cuts effectively limit the fiscal space available to increase social protection and anti-crisis programmes. At best, social protection spending is only maintained (Ethiopia) and in some cases (Latvia) is drastically cut.

More worrying is the IMF programme limitation on sustaining expansionary policies over time. Where there is a loosening of the fiscal targets, this is very narrow and temporary, as often the IMF expects the country to bring down the deficits to pre-crisis levels as soon as 2011 (Ethiopia, Latvia). The IMF seems to be strictly focused on tight fiscal and monetary policy (balanced fiscal positions and rebuilding the reserve buffers) to increase resilience of these countries in the future. Implementing more flexible macroeconomic policies which could be combined with micro interventions to increase the resilience of these countries (investment in social protection systems, enhancing access to credit by small and medium enterprises, capital controls, or more progressive taxation systems) do not seem to be on the table for discussion.

However interviews with different stakeholders in the three countries also reveal that the political economy behind the decisions taken is complicated. In El Salvador some civil society and trade union activists argue that the past (conservative) government has been greatly co-responsible for “20 years of privatizations and other neoliberal policies, which led to a 40% decrease in the number of jobs. However, with the recent change in government, there is a new window of opportunity.” And the new government recognises that the “the IMF has never been so soft” when negotiating with El Salvador.

In Ethiopia, interviewees from local business associations thought that “conditions are no longer fixed by the IMF. The government is becoming more aggressive during the negotiations.” And trade unions largely blamed the government

for the disrespect of basic labour and social rights. In Latvia, the political economy of the negotiations between the Fund and the government is even more complicated because of Latvia’s commitment to join the Euro by 2013, which leaves very little room for flexibility on fiscal and monetary policies.

- ● ● A crucial problem in all countries assessed is the lack of involvement of line ministries, parliamentarians, trade unions and civil society during the negotiations of the IMF loans.

A crucial problem in all countries assessed is the lack of involvement of line ministries, parliamentarians, trade unions and civil society during the negotiations of the IMF loans and the respective budget laws or structural reforms associated with the Fund’s finance. The lack of genuine policy alternatives and more decisive counter-cyclical policies seems to be the result of a combination of IMF narrow-mindedness on broad macroeconomic objectives and a certain degree of blindness towards the broader development strategy of the government, and the Finance Ministries own agenda to keep the budgets balanced. The IMF focuses on a specific budget deficit target regardless of where spending cuts are made or where the income comes from and Finance Ministries sometimes also see social protection spending, investment and industrial policies as just a secondary priority.

Boosting equitable growth, meeting the most urgent needs of the poor, and laying the foundations for the creation of decent work and a robust development which benefits the poorest sectors of society should be the main goals of the funding provided to counter the effects of the crisis. Short-term emergency assistance should be used to build the foundations of a development and growth model which ensures reduction of inequality and poverty eradication.

In a recent briefing, IMF representatives expressed their hopes that in 2011 the world would experience the resumption of the “healthy growth of the last decade”. However, the crisis has shown that this world economic growth is based on rotten foundations. International Institutions, such as the IMF, and national governments should learn the lessons from this crisis and start – from now – building the recovery on a more solid basis.

For this purpose, it is crucial that counter-cyclical policies are geared towards boosting equitable and home-grown growth; increased social protection spending and investment in social capital; and that economic policies are matched with internationally agreed social and labour standards such as the Decent Work Agenda and commitments made by governments at the ILO and its constituents in the 2008 Declaration on Social Justice for a Fair Globalisation and the 2009 Global Jobs Pact.

To ensure that the IMF uses its huge increase in financial resources in an effective way to create decent work, reduce inequality and eradicate poverty the institution should radically depart from the economic orthodoxy that has informed its past policy advice and conditionality. It should:

- Make available additional resources for counter-cyclical action in countries facing fiscal and policy constraints and urge the international community to provide development assistance, including budget support, to build up a basic social protection floor on a national basis. Rather than signalling its traditional “aid pessimism” the IMF should work with donors and borrowers to develop a set of more expansionary fiscal and monetary policy options to be considered in broad dialogue with civil society and trade unions.
- Allow governments to adopt expansionary fiscal and monetary policies which provide them with the necessary fiscal space to invest in social protection and home-grown growth, including active labour market policies.
- Allow governments to use industrial policies to enhance economic diversity by building capacity for value-added production and services to stimulate both domestic and external demand.
- Actively seek to complement their country surveillance with ILO monitoring of the employment and social agenda, as indicated in the ILO’s mandate from the G20. Interagency cooperation should ensure that IMF’s macroeconomic frameworks for borrowing governments accommodate the ILO’s mandate to:
 - Promote the establishment of minimum wages (ILO Minimum Wage Fixing Convention, 1970, No. 131) that can reduce poverty and inequity, increase demand and contribute to economic stability.
 - Help governments to more meaningfully address the problem of informality of the workforce to achieve the transition to formal employment.
- In the short-term enhanced interagency cooperation linking the IMF’s surveillance to that of UN agencies, such as the ILO, can help ensuring that IMF’s macroeconomic policy advice and conditions accommodate the necessary government expenditure to ensure enforcement of basic social and economic rights. However, as the IMF lacks a development mandate and has a very limited capacity on

development economics it will be necessary to empower or create alternative bodies or institutions with the mandate and relevant capacity to conduct macroeconomic assessment and provide macroeconomic policy advice which is sensitive to the needs of low-income and developing countries.

The responsibility does not lie only with the IMF. National authorities and social partners will have to play their parts to ensure that agreements reached between the IMF and governments are progressive and in line with international human rights obligations.

Annex 1

Key principles for economic recovery policy making in the ILO's "Global Jobs Pact"

Action must be guided by the Decent Work Agenda and commitments made by the ILO and its constituents in the 2008 Declaration on Social Justice for a Fair Globalization. We set out here a framework for the period ahead and a resource of practical policies for the multilateral system, governments, workers and employers. It ensures linkages between social progress and economic development and involves the following principles:

- 01 Devoting priority attention to protecting and growing employment through sustainable enterprises, quality public services and building adequate social protection for all as part of ongoing international and national action to aid recovery and development. The measures should be implemented quickly in a coordinated manner.
- 02 Enhancing support to vulnerable women and men hit hard by the crisis including youth at risk, low-wage, low-skilled, informal economy and migrant workers.
- 03 Focusing on measures to maintain employment and facilitate transitions from one job to another as well as to support access to the labour market for those without a job.
- 04 Establishing or strengthening effective public employment services and other labour market institutions.
- 05 Increasing equal access and opportunities for skills development, quality training and education to prepare for recovery.
- 06 Avoiding protectionist solutions as well as the damaging consequences of deflationary wage spirals and worsening working conditions.
- 07 Promoting core labour standards and other international labour standards that support the economic and jobs recovery and reduce gender inequality.
- 08 Engaging in social dialogue, such as tripartism and collective bargaining between employers and workers as constructive processes to maximize the impact of crisis responses to the needs of the real economy.
- 09 Ensuring that short-term actions are coherent with economic, social and environmental sustainability.
- 10 Ensuring synergies between the State and the market and effective and efficient regulation of market economies including a legal and regulatory environment which enables enterprise creation, sustainable enterprises and promotes employment generation across sectors.
- 11 The ILO, engaging with other international agencies, international financial institutions and developed countries to strengthen policy coherence and to deepen development assistance and support for least developed, developing and transition countries with restricted fiscal and policy space to respond to the crisis.

References

- Akyuz (2009) "Policy Response to the Global Financial Crisis: Key Issues for Developing Countries," by Dr Yilmaz Akyuz, South Centre (Geneva), May 2009. Available at http://www.southcentre.org/index.php?option=com_content&task=view&id=1016&Itemid=67
- CEPR (2009) "Empowering the IMF: Should Reform be a Requirement for Increasing the Fund's Resources?" by Mark Weisbrot, Jose Cordero and Luis Sandoval, Center for Economic Policy and Research, Washington DC, April 2009. Available at <http://www.cepr.net/documents/publications/imf-reform-2009-04.pdf>
- Chowla (2009) "The potential development implications of enhancing the IMF's resources," by Peter Chowla, G24 Policy Briefing (forthcoming 2009).
- Eurodad, et al (2008) "Quick Fixes or Real Solutions? World Bank and IMF responses to the global food and fuel crises: A briefing by ActionAid USA, the Bank Information Center (USA) and the European Network on Debt and Development (Brussels), December 2008. Available at http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Quick%20Fixes%20or%20Real%20Solutions.pdf
- Eurodad (2009) "Bail-out or blow-out? IMF policy advice and conditions for low-income countries at a time of crisis," by Núria Molina-Gallart, European Network on Debt and Development, Brussels, Belgium, 2009. Available at <http://www.eurodad.org/whatsnew/reports.aspx?id=3679>
- IMF (2009a) "A Changing IMF— Responding to the Crisis - A Factsheet," International Monetary Fund, Washington DC, May 2009. Available at <http://www.imf.org/external/np/exr/facts/changing.htm>
- IMF (2009b) "IMF Lending: IMF implements major lending policy improvements," International Monetary Fund, Washington DC, 24 March, 2009. Available at <http://www.imf.org/external/np/pdr/fac/2009/032409.htm>
- IMF (2009c) IMF Staff Report for El Salvador
- IMF (2009d) "The Implications of the Global Financial Crisis for Low-Income Countries," Washington DC, March 2009, Available at <http://www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf>
- McLure, J. (2009) "Ethiopia's Business Climate Worsening, Chamber of Commerce Says," Bloomberg News, August 19, 2009.
- TWN (2009). "The IMF's Financial Crisis Loans: No Change in Conditionalities" by Bhumika Muchhala, Third World Network, Penang, Malaysia, 11 March. Available at www.twinside.org.sg
- USAID (2009) "Ethiopia – Complex Emergency," Situation Report #10. USAID. August 12, 2009.
- Wallis, W. (2009) "New masters hold key to pace of Africa's recovery," The Financial Times. July 3 2009.
- Wilks, A (2009) "From London to Pittsburgh: assessing G20 action for developing countries. 16 September 2009. Available at: www.eurodad.org/whatsnew/articles.aspx?id=3820

Acronyms used

CSOs	Civil Society Organisations
EC	European Commission
ESF	Exogenous Shocks Facility
EU	European Union
FCL	Flexible Credit Line
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IEO	Independent Evaluation Office
ILO	International Labour Organisation
LICs	Low-income countries
LOI	Letter of Intent
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MOF	Ministry of Finance
PIN	Public Information Notice (of the IMF)
PRGF	Poverty Reduction and Growth Facility
ODA	Official Development Assistance
RAC	Rapid Access Component (of the ESF)
SDRs	Special Drawing Rights
SBA	Stand-By Arrangement
SC	Structural Conditionality
SMEs	Small and Medium Enterprises
SPC	Structural Performance Criteria
TU	Trade Unions
UNCTAD	United Nations Conference on Trade And Development
VAT	Value Added Tax

This publication is supported by:



This publication has been produced with the assistance of the European Union. The content of this publication is the sole responsibility of SOLIDAR and can in no way be taken to reflect the views of the European Union.

