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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 and the European Network on Debt and Development

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Executive Summary

In May, the World Bank announced the creation of a Global Food Crisis Response Facility (GFCRF) which will fast-track up to $1.2 billion of the Bank's resources within the next three years "to address immediate needs arising from the food crisis." This briefing analyses the Bank's initial and expected funding under this window and finds that its conditionality and repayment framework are better than most Bank operations, but that the problematic agricultural model promoted by the Bank and others has not been reconsidered.

The Bank needs to turn the crisis into an opportunity to learn that finance can be granted without strings attached and no major drama occurs, as long as the right fiduciary measures are in place and the mutually agreed terms of the contract are respected. Time is also ripe for the Bank to move away from advice that promotes unfettered privatisation and liberalisation of the agriculture sector, and open-up for developing country governments to be able to strengthen the productivity of small-scale farmers and food sovereignty of poorer people.

The IMF's policy advice, as presented in its June-end paper, spells out a business-as-usual free-market recipe of fiscal, monetary and trade policy recommendations. The central gist of the policy advice is passing the higher prices onward from the state to the consumer in order to ease the external imbalance and budget deficit, tightening monetary policy in order to abate inflation levels, and employing exchange rate depreciation as a "shock-absorber". The Fund's monetary position is clearly problematic in that it recommends a domestic response to exogenous sources of inflation.

While the Fund's fiscal policy stance of reducing public spending on subsidies and replacing them with temporary and targeted subsidies and cash programs is justified, the primary emphasis in fiscal policy advice should instead be placed on ways in which low-income countries can possibly increase fiscal space. The IMF has responded to countries facing widening trade imbalances and increased spending for needed imports with a degree of understanding for temporarily wider budget deficits and higher inflation. However, these are temporary flexibilities that phase out after 12-18 months; thus, the IMF is still retaining its traditional restrictive policy thrust of tightening fiscal and monetary policy. The IMF's Exogenous Shocks Facility (ESF), is meant to provide rapid and concessional financing to countries hit hard by the food and fuel crisis, however the changes made to the program have failed to change the loan program sufficiently to meet financing needs.

Introduction

The current global food crisis shines light on the flawed lending policies and development models which have failed to ensure food sovereignty and eradicate world hunger. In the past year, the price of staple foods such as rice, grain, oil and sugar has increased 50%; rice prices alone have risen by 90%. A complex interplay of various factors has led to the current crisis in food supply and prices. These range from:

- higher fuel costs, with oil prices soaring by 80% over the past year, which have let to increased prices for agriculture inputs, such as fertilizer;
- the use of food crops for bio-fuels;
- increased demand for food in emerging market countries, partially due to the rising living standards in China and India;
- speculation on global commodity markets; to
- the effects of climate change, such as the prolonged drought in Australia.

While prices roll down, this is temporary to the the recession. The World Bank and the IMF are scaling up resources and fine-tuning their policy advice to address the enormous impacts of the food and fuel price increase crises in both middle- and low-income countries. Although conditions attached to new lending programs by both the World Bank and the IMF have been loosened, these seem to be temporary flexibilities rather than long-term changes in the conditionality policies of the IFIs.

Systemic Causes

Many global observers argue that the systemic driver of the crisis over the long-term is in part the distorted global trade regime. Indeed, the global food and fuel price crises is raising sticky questions about globalization itself. The essence of contemporary globalization has been to encourage countries to anchor their economies in the international trade and financial systems. This has meant that, starting in the 1970s, developing countries were encouraged -pressured, in many cases, by the World Trade Organization, the World Bank, and the IMF -to abandon economic policies prioritizing self-sufficiency, both in terms of food and manufactured goods. "Import substitution," which sought to build countries' capacity to make those items they had to import, was discredited, and governments were prodded by IFIs governed by the G8 to develop their "comparative advantage" within the global economy. For most developing counties, this meant providing cheap labor and agricultural commodities. Countries throughout Africa, Latin America, the Caribbean, and Asia devoted their best land and financial incentives to "cash crops" such as cotton, coffee, tea, tobacco, cocoa and flowers, which are exported primarily to Northern markets. The rationale promoted was that developing countries could buy food imports from the revenues obtained by selling their export commodities.

When commodity prices, which are subject to the inherent volatility of the global market, plunge in value it is the result of so many countries increasing production of the same item. Unbalanced trade rules promoted by the International Financial Institutions (IFIs) have allowed rich countries' agriculture subsidies to artificially depress the prices of foods such as corn and wheat. These cheap food stables are subsequently "dumped" at cheap prices to developing countries, while state marketing boards that protect both producers and consumers against sharp food price volatility are privatized. Consequently, a tide of negative consequences has swept across developing countries over the years: local food production has been undermined, small farmers' livelihoods have been destroyed in many cases, and domestic and regional food markets have been displaced.

As food staples now soar sky-high the dangers of relying on international trade for food supplies is exposed anew: with the programmatic neglect of food security, export bans and skyrocketing prices for imports make it nearly impossible for many countries to feed their people. Civil unrest has broken out in some 20 countries around the world, more than half of them in Africa, and government and IFI officials are scrambling for last-minute cut-and-paste solutions.

1. The World Bank response to the food crisis: learning from mistakes?

The food price crisis has coincided with World Bank renewed attention to agriculture and rural development. For the first time since 1982, the World Bank dedicated its World Development Report 2008 to agriculture. US$3.1 billion was channelled into agriculture and rural development in 2007. In addition, the World Bank Group has set out to strengthen global agribusiness: In the fiscal year ending June 30, 2008, the World Bank's private sector arm – the International Financial Institution (IFC) – invested more than US$1.3 billion in agribusiness. The setting up of the special funds in response to the food price crisis has further increased the amount spent on agriculture and food security.

Global Food Crisis Response Facility

In May, the World Bank announced the creation of a Global Food Crisis Response Facility (GFCRF) which will fast-track the provision of up to $1.2 billion of the Bank's resources within the next three years "to address immediate needs arising from the food crisis." This briefing analyses the Bank's initial and expected funding under this window. It finds that its conditionality and repayment framework are better than most Bank operations, but that the problematic agricultural model promoted by the Bank and others has not been reconsidered.

The GFCRF is partially financed by $1 billion from IDA and IBRD, plus $200 million in grants from IBRD net income via the newly established World Bank Food Price Crisis Response Trust Fund. The World Bank is also establishing a Multi-Donor Trust Fund to leverage financial support from other donors.

The facility - in addition to regular agriculture funding - is the World Bank's contribution to the implementation of the Comprehensive Framework of Action (CFA) of the UN High Level Task Force on the Global Food Crisis (HLTF). The HLTF was initiated by UN Secretary General Ban Kimoon and is composed of all UN organisations dealing with food and agriculture issues as well as the World Bank, the International Monetary Fund (IMF) and the World Trade Organisation (WTO).

The Bank has already approved twenty-nine operations in twenty-five countries. Another twelve operations will be approved before the end of the year. The Bank's funding is intended to "provide rapid assistance to the most fragile, poor and heavily-impacted countries." According to the Bank, they will support safety nets for the most vulnerable, micronutrients to fight malnutrition, rapid provision of seeds and fertiliser to small farmers, and will compensate for sharp reductions in fiscal revenues.

Eurodad reviewed fourteen out of the twenty-four operations,[1] covering fourteen countries in all of the regions where the Bank has provided some type of finance to respond to the food crisis. The good news is that these operations are mostly provided in grant terms, which is crucial to avoid straining even more the financial situation of poor countries hit the hardest by the crisis. And there is more good news. In general, the operations approved tend to have looser conditionality frameworks than the average Bank loan.

However, several problems have been identified. The vast majority of operations are investment loans, which often do not use country systems to deliver the funds, and which are heavily loaded with procurement requirements. Although development policy operations do not increase the conditionality burden, they require the fulfilment of conditions in existing Bank operations in the country, as well as macroeconomic stability as defined by the IMF. Moreover, flexibility shown towards the role of the government in managing a key sector for national food sovereignty, such as agriculture, as well as pro-poor fiscal policies, seems to be permitted only on a temporary basis. And the faith in market efficiency which has partially contributed to the current crisis seems to remain in some of the policy responses to the crisis.

What type of operations?

The majority of operations approved or in the pipeline are investment loans[2] (project loans), provided on grant terms. They are intended for specific purposes, such as purchase of key agricultural inputs (seeds, fertilisers); funding safety nets (school feeding or cash transfer programmes); or compensating revenue lost by reducing taxes or import tariffs. These operations do not have conditionality attached, but include exhaustive guidelines on procurement (related to the purchase of the goods they are intended for) and often suggest changes to government policy.

These operations rarely rely on country systems to implement the project or to procure the goods that they are intended to finance. Most of these investment loans rely on an implementing international agency (such as the UN Food and Agriculture Organisation or the World Food Programme). In general, the procurement rules of the Bank - or the relevant implementing agency - apply. This is justified on the grounds of the need for a rapid response and hence the limited ability of the Bank to consider use of country systems. The downside is that massive funding to address the food crisis will not contribute as it could have to strengthen long-term capacity of recipient governments to respond to this type of crisis.

Procurement is a high priority for developing country governments. Government procurement "accounts for approximately 4.5 per cent of developing countries' gross domestic product (GDP) and governments tend to be the largest single consumers of goods and services in most countries."[3] A government's use of its purchasing power can thus be a very significant tool to achieve socio-economic objectives.

In Niger and in the Central African Republic, the Bank allows for "simplified procurement procedures" due to the emergency situation.[4] This could possibly constitute an opportunity to step up the use of country procurement systems while more capacity and transparency is built into these systems.

Loosening the conditionality grip?

Only one third of the operations approved are development policy operations (DPO) – which either supplement existing Bank grants or loans, or are approved as a new free-standing operation. These funds are typically channelled to the government budget and thus contribute, in principle, to strengthen the government's programmes and policies – when those policies are genuinely owned by the government.

The long-standing criticism from civil society and Southern governments of the Bank's development policy lending is that it comes with too many strings attached. It is true that the Bank has pulled back somewhat from a dogmatic belief in unfettered markets and that old-fashioned conditions of the 1990s are less present in current loans. However, with some qualifications, the Bank is still promoting trade liberalisation and market reforms. A recent report by Eurodad shows that more than two thirds of loans and grants from the World Bank's International Development Association (IDA) approved between 2005 and 2007 still contain conditions that require sensitive policy reforms, such as liberalisation or privatisation.[5]

In some countries, the Bank is supplementing existing DPOs to fill the financing gap provoked by the increase in food prices. In others, a new operation has been approved. A new Development Policy Operation for Djibouti approved in May contained only two policy conditions requiring eliminating taxes on basic food items and setting up an action plan to channel direct support to poor households.[6] Policy matrices for new operations in Sierra Leona or Burundi are very similar both in the number and content of the few conditions attached. Burundi's policy matrix contains three conditions requiring enacting tax exemptions; strengthening school feeding programmes; and increasing budgetary resources for humanitarian relief. In principle, such policy conditions could be deemed uncontroversial if, for instance tax exemptions, are aimed at actually "subsidising" the purchase of these products. Tax exemptions, however, might be highly controversial if applied to imports to protect local production.

In cases when the Bank is topping up existing DPOs, such as Honduras, Rwanda, Haiti or Madagascar, no conditions are added to the existing operation. However, conditions attached

Table 1: Operations Assessed

Country	Operation	Approved Amount (USD$ millions)	Approval Date
Afghanistan	Additional Financing Grant for the Food Crisis Response Project	8	8/5/2008
Bangladesh	Bangladesh Food Crisis Development Support Credit	130	10/28/2008
Benin	Additional Financing for Food Crisis	9	10/25/2008
Burundi	Food Crisis Response Development Policy Grant	10	8/13/2008
Central African Republic	Food Response Project	7	8/13/2008
Djibouti	Food Crisis Response Development Policy Grant	5	5/29/2008
Guinea	Additional Financing Grant for the Guinea Emergency Food Crisis Response Program and the Emergency Agricultural Productivity Support Project	10	9/19/2008
Guinea-Bissau	Additional Financing for the Food Price Crisis Response Program	5	9/22/2008
Haiti	Supplemental Financing for the Second Economic Governance Reform Operation	10	5/29/2008
Honduras	Supplemental Financing Credit for the First Programmatic Financial Sector Development Policy Credit	10	8/7/2008
Kyrgyz Republic	Additional Financing Grant for the Agricultural Investments and Services Project	10	6/12/2008
Liberia	Emergency Food Crisis Response Program	10	5/29/2008
Madagascar	Supplemental Financing Grant for the Fifth Poverty Reduction Support Credit	10	8/13/2008
Moldova	Additional financing for the Moldova Health Services and Social Assistance Project	7	8/8/2008
Mozambique	Food Crisis Development Support Credit	20	11/4/2008
Nepal	Nepal Food Crisis Response Program-Social Safety Net Project	36	9/29/2008
Niger	Emergency Food Security Support Project	7	8/26/2008
Rwanda	Supplemental Financing for the Fourth Poverty Reduction Support Grant Operation	10	8/13/2008
Sierra Leone	Food Price Crisis Response Grant and Budget Support to Offset Lost Revenues from the Spike in Food Prices.	7	8/06 & 8/13/2008
Somalia	Rapid Response Rehabilitation of Rural Livelihoods Project	7	9/5/2008
Southern Sudan	Emergency Food Crisis Response Project	5	10/3/2008
Tajikistan	Emergency Food Security and Seed Imports Project	9	6/13/2008
Togo	Additional Financing to CDD - Food Crisis	7	10/17/2008
West Bank and Gaza	Additional Financing Safety Net	5	11/12/2008
Yemen	Additional Financing Grant for the Third Social Fund for Development Project	10	6/26/2008

to the existing operation do need to be fulfilled and no waivers are extended given the new circumstances. Some new operations run in parallel with recent Bank loans containing conditions which could be deemed sensitive. In Burundi, the 2nd Economic Reform Support Grant, approved in June, required the privatisation and liberalisation of the coffee sector, and such conditions would still have to be fulfilled in these times of crisis. In Madagascar, the 5th Poverty Reduction Support Credit, approved in May, required to restructure the state water agency and scale up public-private partnerships for the water supply. Although these sectors may undoubtedly be in need of reform, it is highly controversial for external actors to meddle in national sectors whose reform may be extremely sensitive.

In addition, all DPOs approved in response to the food crisis invariably require that the government "continues to maintain a satisfactory macroeconomic framework", in line with the conditions stated in the existing IMF Poverty Reduction and Growth Facility. This is not at all easy at a time of commodity price and other economic shocks.

The fact that these grants have few strings attached is unlikely to indicate a sea change in World Bank approaches. On the one hand, the looser conditionality frameworks are due to an emergency situation rather than a more structural trend towards loosening the institutional grip over poor countries. On the other hand, the prevalent operations are by far the so-called "Investment Loans" which are intended for very specific purposes, thus not really contributing to increasing the policy space available for recipient countries.

The Bank claims that poor countries are given the option to choose between an investment loan or development policy operation. However, crisis-stricken impoverished countries which are badly in need of funding, are not well-placed to negotiate on either the type of agricultural or funding model.

Food sovereignty or food dependency

There is little talk in official circles about a fundamental cause of the 2007-2008 food crisis; the agricultural model and the trade liberalisation and structural adjustment policies heavily promoted by rich country governments and international financial institutions since the 1980s. World Bank and IMF development finance in the structural adjustment era (1980s and 1990s) came with conditions attached. These conditions were that countries dismantle tariffs and other tools that developing countries had created to protect local agricultural production; lift restrictions on private sector participation in grain movements; remove price controls on agricultural commodities; reduce or remove subsidies on inputs; and privatise state-owned companies.

Unfettered privatisation and liberalisation favoured export-led agriculture over local food production and opened the door to global agribusiness often servicing the needs of Western supermarkets rather than strengthening the productivity of small-scale farmers and food sovereignty of poorer people.

Today, roughly 70% of developing countries are net food importers. And of an estimated 923 million hungry people in the world[7], 80% are small farmers. Even though the reforms pushed by the IFIs in the 1980s and 1990s may have, in some cases, increased food production, "they have been unable to increase productivity, economies have not substantially diversified away from dependence on agriculture, smallholders' access to critical inputs such as fertiliser has declined, mainly due to increased prices, and trade liberalisation has generally led to imports rising faster than exports", outlines the report by Mark Curtis "Deadly Combination: The Role of Southern Governments and the World Bank in the Rise of Hunger" published last year.[8]

In light of the generally poor results of these reforms and their often harmful impact on poor people, the World Bank and the IMF seem to have changed their policy advice and the conditions attached to their development finance.[9] Even though the Bank – and to a lesser extent the Fund – has now again pulled back from a whole-hearted belief that unfettered markets are the answer to all agricultural problems, they are still pushing trade liberalisation and market reforms.

Towards external Human Rights accountability of the World Bank?

At a time when the World Bank is planning to get heavily involved in agriculture and food security, monitoring of the impact of World Bank policies on the human right to food is becoming increasingly important. There is an increasing consensus among civil society actors that the internal mechanisms of the World Bank - the Inspection Panel as well as the IFC Ombudsman – are insufficient to hold the World Bank accountable. Instead, there is a need for innovative approaches to establish external human rights accountability of the World Bank.

So far, the World Bank has failed to acknowledge that is has human rights obligations under international law. It has also ignored that the UN General Assembly in 2005 called on “all relevant international organisations, including the World Bank and the International Monetary Fund, to promote policies and projects that have a positive impact on the right to food, to ensure that partners respect the right to food in the implementation of common projects, to support strategies of member states aimed at the fulfilment of the human right to food and to avoid any actions that could have a negative impact on the realisation of the right to food”.

Monitoring the impact of World Bank policies on the human right to food is highly relevant for example concerning:

- the impact of World Bank promoted trade liberalisation on the ability of small farmers to earn a living from farming;
- the dispossession of rural communities due to heavy public and private investments in extractive industries, large-scale agriculture etc;
- the impact of World Bank promoted investment promotion polices on the ability of state institutions to protect the right to food of rural communities;
- the impact of World Bank promoted land reform projects and policy advise on the ability of landless and small farmers to access land and water;
- the capacity of state institutions to support small-scale agriculture and the related role of World Bank financing and policy advise;
- the impact of the World Bank promoted privatisation of agricultural banks and the impact of IFC funded private financial services to agriculture.

While states have to report regularly to the international human rights bodies regarding the implementation of the human right to food, IFIs have so far not been required to do so. Part of the reason is that while states have ratified human rights treaties which include reporting procedures, the IFIs are bound by these treaties only indirectly via the states which govern them. Nevertheless, the World Bank, as the IMF, is bound under the UN Charter to work towards the realisation of human rights for all.

In June 2008, the UN Human Rights Council – the United Nations’ main political human rights body – convened a special session on the food price crisis. The UN Special Rapporteur on the Right to Food, Olivier de Schutter, has since then been very active in establishing a dialogue on a human rights based response to the food crisis. The Human Rights Council will continue to discuss the issue. One of the issues that should be addressed is how to make the IFIs more accountable to the human right to food under international law and how reporting or complaint procedures would be set up.

See also: **www.fian.org**

An analysis of the World Development Report 2008 by German NGOs shows that the Bank still encourages small farmers to become part of the global value chain of agricultural production in order to graduate from poverty.[10] The main emphasis is on access to inputs and markets. This approach ignores the problem that small-farmers will increasingly become dependent on seeds and fertiliser sold by local agents of transnational companies like Monsanto. In addition, the report takes for granted that not all small farmers will survive in this competitive market and will migrate to the cities. This goes hand in hand with market-led land reforms pushed by the World Bank in many developing countries which are intended to facilitate the sale of land to private interests which have the financial capacity to invest.

This general policy is reflected in the projects financed under the GFCRF. The supplemental financing granted to Rwanda to face the challenges arising from the food crisis recognises that "despite reforms in 2005 aimed at increasing the engagement of the private sector in input distribution, the private sector remains weak." The Bank has required states to pull back from some of the functions they held with the hope that the private sector will fill in the space. All too often the private sector has not filled in the space - because the sector was not profitable - or has not performed as efficiently as expected. However, in Rwanda, the Bank still hopes that the role of the state in the distribution of fertiliser will only be transitional, leaving the task to the private sector as soon as possible. In Burundi, reforms are still aiming to make the country a net food exporter – which all too often means focusing on export-oriented agriculture thus abandoning crops which ensure the country's food sovereignty. A similar line is taken in Honduras, where the Bank has an ongoing operation to increase the competitiveness of the rural sector by deploying "market-oriented, demand-driven mechanisms to assist rural producers to establish partnerships with commercial actors … to increase purchasing powers to ensure sufficient access to food."[11]

Limited impact assessment and community participation

All financial packages provided by the Bank under the GFCRF either postpone or drastically simplify the impact assessments for these operations. Even if the 2008 food crisis becomes an emergency situation that requires a quick response to avoid worse consequences, it is important to highlight that action needs to be carefully assessed to ensure that it is actually contributing to the intended purposes.

The Comprehensive Framework for Action (CFA) of the High Level Task Force on the Global Food Crisis (HLTF) is divided into two parts – the first addresses immediate action to be taken, the second deals with policies necessary to implement long-term food security and eliminate hunger and malnutrition. The CFA is presented by the UN organisations as a blueprint for action to be taken by developing countries in response to the food price crisis and beyond.[12] Even though the HLTF acknowledges that implementation will have to respond to local situations and that it should be streamlined with national Poverty Reduction Strategies (PRSPs), developing countries are expected to stick to the general policies prescribed, including for example more liberalisation on all levels. Reference to the human right to food is purely rhetorical with no mechanism for implementation (see box on human rights accountability below). The major tool developed by the international community to implement the human right to food – the FAO Voluntary Guidelines on the Right to Food – is not even mentioned. The CFA as well as the World Development Report fail to address the question of how to remedy existing discrimination against small farmers and how to avoid future discrimination while implementing agricultural reforms. Gender issues are only marginally addressed and both documents are silent on the question of how disempowered segments of society – like small farmers – will gain the right to be heard in the formulation of national policies.

Organisations like the FoodFirst Information & Action Network (FIAN) question the legitimacy of the CFA which has been drawn up without consultation of civil society. On the substance, FIAN claims that the actions suggested by the CFA "will rather contribute to cementing existing power structures which are the source of violations of the human right to food worldwide". FIAN calls for a broad consultation process on the CFA at the international and national level prior to implementation, involving all sectors of society affected by the food crisis, and to ensure a human rights based monitoring of the adapted CFA. The same goes for any World Bank funded projects.

Will the Bank's loans fix past mistakes?
The Bank claims its emergency financial envelopes will help fix the food crisis. Many observers believe the World Bank has contributed to the agriculture and food problems of developing countries through the policies it has promoted over many years. It needs to acknowledge previous bad practices and state that new finance will not contribute – as it did in the past – to undermine small farming and food security in poor countries.

It is still too early to assess the effectiveness and impact of the Banks food crisis response operations. However, the institution deserves some credit for quickly providing finance in grant terms and with a reasonably loose conditionality framework. Hopefully the Bank will turn the crisis into an opportunity to learn that finance can be granted without strings attached and no major drama occurs, as long as the right fiduciary measures are in place and the mutually agreed terms of the contract are respected. Maybe the Bank will even learn that when no strings are attached, aid money contributes more effectively to poverty reduction.

2. Traditional IMF policy recipes despite severe food and fuel shocks

Soon after the price increases in food and fuel began to make bold headlines in the press in early 2008, the IMF started to react, promising that these price increases would take priority in the work of the Fund. Specifically they proposed to deliver their macroeconomic policy advice for crisis-affected countries, augmentations to the financing levels in the Fund's concessional loan program to low-income countries, the Poverty Reduction and Growth Facility (PRGF), and changes to their as yet unused Exogenous Shocks Facility loan. The concessional loans are directed toward low-income countries which are experiencing soaring import bills for food and fuel. According to figures from the Global Policy Forum, nearly three quarters of developing countries today are net importers of food.[13] This fact signifies a structural food security deficit in developing countries, which stems in large part from the decades of structural adjustment by international financial institutions such as the World Bank and the Fund to dismantle agricultural tariff regimes across developing countries and open their agricultural markets to imports of food staples made artificially cheap by Western country subsidies. This led to a volatile dependency on imports of basic food staples that are prone to price swings in the global commodity market that citizens require for daily sustenance.[14]

The Fund's assessment
The IMF emphasized that daunting policy challenges were now apparent in the exacerbation of poverty levels, the fragility of food security, and the imperative of maintaining hard-won macroeconomic stability in low-income countries. Overall, up to 75 developing countries' economies would be severely affected by the three factors that concern the IMF most: a) sharp increases in inflation levels, as food staples constitute large components of the Consumer Price Index in developing countries, b) strained balance-of-payments positions, as import bills multiply in cost and foreign exchange reserves dwindle, and c) fiscal costs, as affected countries increase fuel subsidies and reduce fuel taxes to soften the blow of oil price hikes.

At an early July seminar, IMF chief Dominique Strauss-Kahn warned that some low-income countries were now at "a tipping point" due to the double impact of price hikes in both food and fuel commodities, painting a grave scenario by saying, "some governments will no longer be able to feed their people and at the same time maintain stability in their economies."[15] Strauss-Kahn emphasized that the gains in macroeconomic stability and economic growth made by many low-income countries in the last 5 to 10 years and were at risk of being wiped out. The Fund establishes two thresholds for identifying countries that are severely affected by the food price increases: a balance of payments deficit exceeding 2.5% of GDP or the depletion of foreign exchange reserves - which countries dip into in order to pay for their imports - by more than 50%. At a second seminar on the food crisis held by the IMF in September, the Policy Department's director stated that 24 countries will see their balance of payments deficit exceed 2% of GDP, with approximately 50 countries facing economic vulnerability as their reserves dip to levels that cover less than three months of imports.

News reports hinted that the Fund's emphasis on the balance of payments reflected a shift away from the typical focus on inflation levels and fiscal budget balances. However, the IMF's predominant preoccupation with curbing inflation levels was clearly reiterated at the G8 summit in Japan, where Strauss-Kahn persuaded leaders that "inflation should be the top concern of policymakers confronted by higher food and fuel prices," even more so than economic growth levels, as he called on the world's leaders to help prevent the price hikes from turning into an unprecedented spread of global inflation.[16] The primary means by which Strauss-Kahn urged countries worldwide to address the risk of a sharp increase in global inflation is by taking "appropriate monetary policy remedies," namely that of national Central Bank actions toward tightening, or increasing, national interest rates. With hindsight we see that this fear and remedy were misplaced.

Policy advice: with an eye to 'macroeconomic stability'

The IMF's policy advice, as presented in its paper, published at the end of June, 2008[17] spells out a business-as-usual free-market recipe of fiscal, monetary and trade policy recommendations. The central gist of the policy advice is to pass the higher prices onward from the state to the consumer in order to ease the external imbalance and budget deficit, tightening monetary policy in order to abate inflation levels, and employing exchange rate depreciation as a "shock-absorber."

The Fund's policy advice is channelled through both formal and informal means, such as its annual bilateral surveillance within its country members, technical assistance, lending and monitoring programs, as well as informal negotiations and individual advisory services. Advice from the IMF is taken seriously and implemented by many developing countries, both middle- and low-income, due to the catalytic power that the IMF holds by being able to signal to bi- and multi-lateral development financiers whether a country's macroeconomic status is conducive to receiving aid and loans by both enabling other aid and development financing.

Monetary policy: keep on tightening

In the first half of 2008, inflation accelerated across the developing world—average headline inflation in low- and middle-income countries reached 12.7% and was projected to scale up to 13.3% by the end of 2008.[18] This is well above the single-digit inflation range of between 5-7% that the IMF advocates its member countries to maintain. The Fund reasons that the causes behind these increases are the current hike in world oil prices, the limited monetary and exchange rate responses of developing countries that have reduced fuel taxes, increased fuel subsidies, and allowed their public sector wages to increase. Another cause ascribed by the Fund is the "reluctance" of developing countries to use exchange rate flexibility by depreciating their currencies in order to absorb the shock of higher prices. Inflation will tend to be higher in low-income countries due to the much larger proportion of household expenditure that goes into buying food, and thereby the bulkier weight of food in the national Consumer Price Index (CPI). In Haiti, rice alone accounts for 3% of Haiti's current inflation basket, and fuel and public transportation compose yet higher components of the country's inflation basket.

The IMF's monetary policy has an explicitly two-tiered message: one for middle-income and advanced countries and one for low-income countries. For the first group, if "inflation objectives are missed, the central bank should explain to the public that achieving these objectives in the face of such profound supply shocks would require an overly contractionary policy" which would unnecessarily slow down economic activity. On the other hand, for the second group, the

Fund gives the opposite advice with the justification that low-income countries have nascent inflation targeting regimes and have not yet established "policy credibility." Thus, the risk of monetary tightening leading to economic output loss in the hardest-hit countries is given less importance than the "risks of lower credibility if inflation objectives are missed."[19]

The standard response to inflation employed by central banks in both developed and developing countries, and maintained and reinforced by the IMF, is to hike the rate of interest in an effort to dampen aggregate demand in the economy, and thereby inflation expectations. This response is based on the core belief that inflation has been triggered by an excess of money in the local economy, often driven by public spending and domestic fiscal deficits which result from spending. However, the inflation that was, in the first half of 2008, spreading across the developing world was being driven by exogenous factors in the global economy—that of soaring global commodity prices in food and fuel products. This is beyond the control of national policymakers, and has not been caused by domestic public spending resulting in an increase of local money supply. The headline inflation levels triggered by the food and fuel price increases present the current-day phenomenon off "globalized" inflation, or an "imported acceleration of inflation." A tightening of monetary policy in response to an exogenous cause of inflation would lead to a contraction of domestic demand, thereby inducing a domestic recession.

According to academic Terry McKinley, increasing domestic interest rates or constraining the growth of money supply in the local economy would "heighten the risk of misguided national policy responses." [20] In the context of a financial crisis and recession in developed countries, triggered by the U.S. sub-prime crisis, and the associated slowdown in growth in developing countries, tightening monetary policy will only "make matters worse." Furthermore, the underlying structural factor, particularly in import-dependent low-income countries, is the recent history of under-investment in agriculture, for which international financial institutions are partly to blame. This pattern and history of agricultural under-investment will only be further exacerbated if monetary policies are tightened solely to meet inflation targeting objectives. Pushing up interest rates, and sucking out the supply of local money, increases the cost of borrowing for local borrowers and the costs of investment for local investors. The Fund's monetary position is clearly problematic in that it recommends a domestic response to exogenous sources off inflation. The inflation caused by the food and fuel crises is not monetary in origin, in that it is not related to domestic demand and supply. Thus, the remediation response should not be to constrain domestic demand by monetary policy tightening.

Fiscal policy: pass-the-prices-on

The message driven by the Fund's fiscal policy advice is that the pass-through of food and fuel price increases to higher domestic prices is "ultimately unavoidable". The IMF repeatedly underscores the importance of phasing out subsidies, reducing taxes and aligning public sector wage increases with that of the private sector. Recognizing that such steps would intensify economic burdens on the poor in crisis-hit countries, the Fund argues for targeted social safety nets to protect the most vulnerable. The Fund's threshold for a dangerous level of fiscal deficit is when national deficits reach 1% of GDP. The food and fuel price increases have expectedly resulted in a higher number of countries reporting fiscal costs and the magnitude of those costs continuing to increase. The median total fiscal cost since 2006 has increased from 0.6-0.7% of GDP, while higher fuel subsidies and lower fuel taxes account for nearly two-thirds of this amplification of fiscal costs, and is expected to exceed 2% of GDP in 24 low-income countries.

The Fund's fiscal policy stance of reducing public spending on universal fuel subsidies, and replacing them instead with temporary and targeted fuel subsidies is justified given the widespread trend of universal fuel subsidies chewing up substantial portions of the public budget, being ill-targeted, and not resulting in welfare gains overall, or for the most vulnerable sections of society. It is hard to legitimize the question of spending such large amounts of public resources in this context, and temporary and well-tar-

Box 2: Microeconomic Targets: Temporary Flexibilities, not Structural Change

Macroeconomic targets: temporary flexibilities, not structural change

By Rick Rowden, ActionAid USA

The International Monetary Fund (IMF) has responded to the 2008 price increases for imported food and fuel in developing countries by augmenting the existing lines of credit for 11 countries with Poverty Reduction and Growth Facility (PRGF) arrangements, and has opened new PRGF loan programs for 4 additional countries. The IMF has responded to countries facing widening trade imbalances and increased spending for needed imports with a degree of understanding for temporarily wider budget deficits and higher inflation. However, the IMF is still retaining its traditional restrictive policy thrust of tightening fiscal and monetary policy while other economists outside the IMF think the opposite policy thrust should be adopted. An analysis of the IMF programs for 14 of these 15 countries (no information is available for Grenada) shows that the IMF is still advising countries to drive inflation and deficit levels back down to unnecessarily low levels within the next couple of years. Several of the countries are members of regional currency unions and are obligated under such arrangements to keep inflation and fiscal deficits at unnecessarily low levels. Such policies have the effect of keeping public spending, employment and future GDP growth rates lower than they otherwise could be, undermining efforts and public investment and development.

Rather than the classic IMF prescription of cutting public expenditure and increasing interest rates, there are important alternative approaches that would seek to do the opposite (as the United States has recently done by adopting looser fiscal and monetary policies in response to the credit crisis). Some economists think the IMF should change its policy approach. For example, Terry McKinley, Director of the Centre for Development Policy and Research at SOAS in London, pointed to the long-term problem of global supply not keeping up with rising global demand for food and oil, recent droughts, higher energy and fertilizer prices, the diversion by the US and EU of land and feed stocks to bio-fuels production and speculation in commodity prices by international investors as the key external factors driving the increase in exogenous inflation that is now affecting developing countries. “But an underlying structural factor, particularly in developing countries, has been long-standing under-investment in agriculture. The mistaken advice of multilateral and regional financial institutions is partly to blame. The woeful lack of both public and private investment in agriculture will only be aggravated if central banks in developing countries now resort to higher interest rates.”[20]

Similarly, a briefing by the UNDP’s International Poverty Center argues that policymakers should pursue specific direct measures to control inflationary pressures resulting from supply shocks and inertia: “Monetary policy should then target the short-term interest rate rather than the growth rate of the money supply (inflation). Central banks should retain the capacity to concurrently maintain reasonable control over the short-term interest rate and the exchange rate through making judicious use of capital management policies, such as moderate exchange controls. Finally, it is imperative for governments to dramatically increase access to affordable credit for enterprises at all levels, including small businesses, household enterprises and rural smallholders. The key policy tools here are large-scale loan guarantee programs and the revival and recapitalization of public development banks.”[21]

The UNDP’s IPC also recently issued a study which echoed a 2007 IMF Internal Evaluation Office report about how large amounts of foreign aid are not being spent or absorbed by recipient countries such as Kenya and Malawi because of tight IMF monetary policies. The report contrasted the recent UN MDG summit in New York and the call for more foreign aid against the very restrictive monetary policies on the ground in such low-income countries and discussed the problems with the IMF’s policy advice to maintain high interest rates, adopt inflation-targeting, and limit public expenditure: “Policies become too restrictive to allow full spending and absorption, even when aid is scaled-up,” often because, “Macroeconomic policies have not been expansionary enough to increase MDG levels of spending.”

Table 2: Inflation and Deficits on PRGF Programming

Country with PRGF augmentation or a new PRGF program	Inflation		Deficit (% GDP)	
	2008	Target	2008	Target
1. Burundi	14.6 %	Down to 6% by 2011	0.5%	1.3% by 2011
2. Djibouti	13.9%	Down to 5.5% by 2009	1.9%	0% (balanced budget) by 2011
3. Mali	2.5%	2.5% by 2009	4.4%	2.9% by 2009
4. Niger	2.2%	2.0 by 2009	3.3%	2.7% by 2011
5. Benin	5.5 %	2.9% by 2010	4% (excluding grants)	Under 4% (excluding grants)
6. Burkina Faso	3.3%	2.1% by 2010	5.4%	4.5% by 2010
7. CAR	4.6%	2.5% by 2010	0.1%	0.1% by 2009
8. Grenada		no info available		no info available
9. Guinea	15%	Down to 7% by 2010	1.0%	0.4% by 2010
10. Haiti	16%	Down to 9.5% by 2009	7.8% (excluding grants)	Down to 6.5% by 2009 (excluding grants)
11. Kyrgyz Republic	20%	Down to 15% by end-2008	1.5%	Keep at 1.5%
12. Madagascar	10%	Down to 6% by 2010	4.4%	Down to 2.8% by 2010
13. Malawi	8.2%	Down to 6.8% by 2011	3.8%	Down to 2.7% by 2011
14. Nicaragua	17%	Down to 7% by 2010	1.8%	Down to 1.0% by 2010
15. Togo	9%	Down to between 3.5% and 4.1 %	2.4%	Down to 1.3% by 2010

Notes -	Inflation Targeting
1. Burundi	"The objective of monetary policy should be to bring down overall inflation while accommodating the first-round effects of the food and fuel shock."
2. Djibouti	
3. Mali	West African Economic and Monetary Union targets (under 3%)
4. Niger	West African Economic and Monetary Union targets (under 3%)
5. Benin	West African Economic and Monetary Union targets (under 3%)
6. Burkina Faso	West African Economic and Monetary Union targets (under 3%)
7. CAR	Commission de le Communaute Economique et Monetaire de L'Afrique Centrale targets (under 3%)
8. Grenada	
9. Guinea	
10. Haiti	"Monetary policy will be tightened to help contain inflationary pressure from the sharp rise in commodity prices…authorities…are committed to raising interest rates as necessary"
11. Kyrgyz Republic	"authorities are tightening monetary policy to fight second round price and wage effects and prevent inflation expectations from adjusting upward…"
12. Madagascar	"The central bank should continue to build up its foreign exchange reserves while keeping monetary policy adequately tight to minimize the second-round inflationary effects of the increases in world food and fuel prices."
13. Malawi	"monetary and exchange rate policies will continue to aim at keeping inflation moderate."
14. Nicaragua	
15. Togo	Regional monetary union targets

geted fuel and kerosene subsidies are a more efficient mechanism for combating supply-side shocks that the monetary approach of increasing interest rates.

However, the primary emphasis in fiscal policy advice needs to be placed on ways in which low-income countries can possibly increase fiscal space. This includes domestic revenue mobilization through increasing the administrative efficiency of revenue collection and curbing the massive amounts of local money that slips out of the country through tax evasion. Poor countries that are rich in natural resources can aim to amend their tax policies in order to increase tax levels that can be collected from the private sector actors benefiting in the national extractive industries. However, while the IMF is an audible proponent of revenue and contract transparency, it does not advocate for increasing the taxes and regulations that extractives companies have to confront nationally, on the basis that such policies would deter private sector investment and investor confidence overall. While the Fund states that countries should reduce their non-productive spending, this can often be viewed as anti-state rhetoric. While there are some valid cases for reprioritising the budget, as in Kenya where parliamentarians and civil servants are paid some of the highest salaries in the world or in countries where there is a good case for funds to be transferred out of the defense budget and into the public budget, in many low-income countries the public budget is already slimmed down.

Augmenting PRGF loans

Loans to low-income countries through the Poverty Reduction and Growth Facility (PRGF) have been augmented for 12 countries. Conditionality on the fiscal deficit, long criticised for constraining public spending needed to meet the MDGs, have now been loosened to allow for necessary public spending for food. However, these are temporary flexibilities and are unlikely to signify a long-term change in the Fund's conditionality.

Exogenous Shocks Facility: problems remain despite revision

The review of the Exogenous Shocks Facility (ESF) has been prioritized within the IMF's current review of all lending instruments and policies due to the urgency of the food and fuel crises. It is meant to provide rapid and concessional financing to countries hit hard by exogenous shocks, however the changes made to the program have failed to change the loan program sufficiently to meet financing needs. The ESF has not been used since its inception in 2005 despite this year's food and fuel crises—while the IMF ascribes this to the benign conditions of the global economy, up until recently, other observers ascribe this to the high costs and low benefits of the way the ESF was designed. An executive board discussion on the ESF took place on September 19[22] amid rancour in the board over the review, particularly conditionality. While the first quarter of funds available from the ESF would carry no conditionality, anything above that limit would carry conditionality and programme negotiations much like the PRGF.

The re-design of the ESF does not resolve the key problems with the original ESF design in 2005 which deterred any country from requesting it. The earlier problems are acknowledged by the IMF as being: speed, conditionality, insufficient access, and the policy prohibiting countries from having both PSI and ESF in place concurrently. However, the first three of these four problems still very much remain. While some positive modifications are outlined in the paper, the content of the revised ESF in terms of conditionality and access, and the modalities of the ESF in terms of speed, country-level process, and ownership still do not resolve the ESF's earlier flawed design.

Conditionality in the high-access component of the ESF will be "limited to macroeconomic and structural measures considered important for adjustment to the shock".[23] Civil society advocates, who sent a letter to the IMF Board preceding their discussion on the ESF modifications proposed by IMF staff[24], contend that merely limiting and focusing conditionality does not suffice; policy conditionality should not be attached to the high-access component of the ESF and countries should not have to commit to a 1-2 year upper-credit tranche (UCT) economic program. Instead, the ESF should focus on providing simply rapid, short-term, and concessional cash transfers, with the focus kept on the short-term, as opposed to medium-term UCT conditionality. The IMF's policy advice through its bilateral surveillance activity should be sufficient. Further, given that the ESF is to function in parallel to other IMF instruments, these countries already have a framework of binding conditionalities in place—having two separate programs, both carrying conditionality that may or may not overlap, may be excessive and inappropriate in the current crisis context.

Although the rapid-access component is not attached to policy conditionality, borrowing countries might be "requested to implement up-front measures as a condition for use of the financing." While the proposed modifications in the ESF paper do not explicitly state the term "prior action," it is apparent that requests for rapid access will be conditional on policy commitments undertaken by member countries before financial disbursements. If requests for rapid-access will be subject to "approval standards" similar in effect to prior actions, this contradicts previous statements in the ESF paper that the rapid-access component will not require conditionality. Making urgently-needed financing contingent on up-front measures is not appropriate or effective given that countries facing the commodity crisis may well be in a state of emergency and may not have the resource and/or personnel capacity, the time, the fiscal space, or the political environments necessary to commit to substantive economic policies or implement up-front measures before receiving financing. According to an IMF executive director from a developing country, the ESF's process modalities "do not respect the urgency of the commodity crises on hand when it follows that of the PRGF."

The ESF also defined limits on access for countries, 25% for the rapid component and 75% for the "high-access component, does not reflect the IMF's claim that its programs are "country-driven." Civil society advocates underscore that it is important for member countries to independently decide how much access it needs under the ESF in order to ensure national-level policy space and maximum flexibility for countries requiring emergency financing. The ESF reaffirms the IMF's signaling role by stating that it will serve a "catalytic role for grants and more concessional loan resources." The signaling role of the IMF to bilateral and multilateral donors and creditors should not be used at all, or should not be used as vigorously, in the current context of the global food and fuel crises, as countries need donor aid and credit on an immediate, urgent and humanitarian basis. The IMF has to recognize and act on the fact that the current commodity crises create very different macroeconomic scenarios for countries than in normal times.

Last, the IMF claims that it conducted the ESF review through discussions with creditors, donors, potential low-income country borrowers, and outside observers. It would be useful to specify who exactly these outside observers are, and whether external stakeholders such as line ministries and parliamentarians, as well as civil society, trade unions, independent economists and academics, have been invited for substantive input into the ESF review in countries affected by food and fuel crises.

3. Learning from mistakes?

If the IFIs want to advertise their emergency financial envelopes as a fix to the food crisis, which is likely to reoccur, they need to give clear indications that they acknowledge past bad practices and that new development finance will not contribute – as it did in the past – to undermining small farming and food security in poor countries. It is yet early to assess the effectiveness and impact of the Bank and Fund operations. The Bank deserves some credit for quickly providing finance in grant terms and with a reasonably loose conditionality framework. Hopefully the Bank will turn the crisis into an opportunity to learn that finance can be granted without strings attached. Maybe the Bank will even learn that when no strings are attached, aid money is more effective to contribute to poverty reduction. It is a lesson the Fund could do well to learn in its revision of the ESF.

Endnotes

1. We acknowledge the contribution of World Bank staff which provided the project documents, as not all of this documents were available online. Also, Eurodad found difficulty in finding online the documents for some regular operations recently approved by the Board.
2. The type of operations used are called "investment loans", referring to investment projects provided in grant terms. These are grants for investment projects, even though the term "loan" may be somehow misleading.
3. "Buying power: aid, governance and public procurement" by Christian Aid (February 2008). www.eurodad.org/whatsnew/reports.aspx?id=2126.
4. Niger's Emergency food security support project (August 2008) and Central African Republic's Food response project (July 2008).
5. "Untying the knots: how the World Bank is failing to deliver real change on conditionality" by Eurodad (November 2007). www.eurodad.org/whatsnew/reports.aspx?id=1804.
6. For a classification of sensitive policy conditions, see Eurodad's report "Untying the knots".
7. New FAO estimate for 2007.
8. Mark Curtis, "Deadly combination: The role of southern governments and the World Bank in the rise of hunger", Norwegian Church Aid (February 2007). www.reliefweb.int/rw/RWB.NSF/db900SID/EDIS-784MPC?OpenDocument.
9. See the Eurodad's research on World Bank conditionality: "Untying the knots", November 2007. This research found that the Bank has decreased its use of privatisation and liberalisation conditions over the past few years. However, it also finds that one quarter of all Bank conditions are economic policy conditions.
10. "Schöne neue Landwirtschaft – der Weltentwicklungsbericht der Weltbank", Forum Umwelt & Entwicklung (2008). www.forum-ue.de/fileadmin/userupload/publikationen/le_2007_schoeneneuelandwirtschaft.pdf.
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12. For an analysis of the CFA see FIAN "Time for a Human Right to Food Framework of Action. FIAN Position on the Comprehensive Framework of Action of the High Level Task Force on the Global Food Crisis" (September 2008). www.fian.org/resources/documents/others/time-for-a-human-right-to-food-framework-of-action/pdf.
13. Katarina Wahlberg "Are We Approaching a Global Food Crisis? Between Soaring Food Prices and Food Aid Shortage," Global Policy Forum (March 3, 2008). www.globalpolicy.org/socecon/hunger/general/2008/0303foodcrisis.htm.
14. "Food price crisis: a wake-up call for food sovereignty," The Oakland Institute (April 2008.) www.oaklandinstitute.org/pdfs/Food_Prices_Brief.pdf.
15. "The Impact of the Food and Fuel Crisis," The IMF and Civil Society (July 1 2008). www.imf.org/external/np/exr/cs/news/2008/070108.htm.
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17. "Food and Fuel Prices—Recent Developments, Macroeconomic Impact, and Policy Responses," IMF (June 19, 2008). www.imf.org/external/pp/longres.aspx?id=4266.
18. "Food and Fuel Prices—Recent Developments, Macroeconomic Impact, and Policy Responses," IMF (June 19, 2008). www.imf.org/external/pp/longres.aspx?id=4266.
19. "Food and Fuel Prices—Recent Developments, Macroeconomic Impact, and Policy Responses," IMF (June 19, 2008). www.imf.org/external/pp/longres.aspx?id=4266.
20. Terry McKinley, "The Globalisation of Inflation and Misguided Monetary Policies," No. 14, Centre for Development Policy and Research, School of Oriental and African Studies (September 2008) www.soas.ac.uk/cdpr/publications/dv/46326.pdf.
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22. "IMF Reforms Exogenous Shocks Facility," IMF Public Information Notice (PIN) No. 08/130 (October 8, 2008). www.imf.org/external/np/sec/pn/2008/pn08130.htm.
23. "Proposed Reforms to the Exogenous Shocks Facility," IMF Policy Paper (July 25, 2008). www.imf.org/external/pp/longres.aspx?id=4286.
24. Please see Annex 1: Advocacy letter to the IMF Board on the Exogenous Shocks Facility

Annex 1: Advocacy letter to the IMF Board on the Exogenous Shocks Facility

August 29, 2008

Executive Board
International Monetary Fund
700 19th Street, NW,
Washington, D.C. 20431

The IMF's response to exogenous shocks caused by the food and fuel price crises

Dear Executive Directors,

The IMF has publicly recognized the severe impacts of the global food and fuel price increases on vulnerable low-income countries. We encourage the IMF to now ensure that these concerns are fully reflected in the IMF's financing, policy advice and program design. The magnitude of the crisis requires increased policy space for low-income countries: as import bills soar, many countries lack the necessary fiscal space to address budget deficits as well as balance-of-payments problems.

In your September 19th discussion of the modifications made to the Exogenous Shocks Facility (ESF), we would therefore urge you to ensure the following:

- **The ESF's high-access component should not be attached to any policy conditionality in its recent modifications**, other than normal fiduciary standards, and should focus on providing rapid, short-term, and concessional cash transfers to address the immediate macroeconomic impacts of external shocks. The IEO report on conditionality released in January 2008 underscored the lack of progress in reducing conditionality in IMF programs. Shocks, by their very nature, cannot be predicted and so conditions are inappropriate, and given that the ESF intends to address short-term external imbalances it should not come with policy conditionality intended for the medium-term. Surveillance-only countries should not be required to implement policy reform through conditionality; and countries with a Policy Support Instrument in place are already subscribed to policy conditionality. Rapid access under the ESF should be straightforward in the form of financing to cover a shock: the IMF's policy advice in the Article IV should be sufficient. Furthermore, the IMF should assist all affected poor countries regardless of their track record with the Fund. The PRGF and PSI programs should not be used as the guiding framework for assistance as they are not meant for addressing external shocks.
- **The ESF should be made more concessional than the PRGF** in light of the fact that it is being used by countries that are in crisis. The ESF should be available to countries experiencing either **balance of payments or budgetary problems, and with open access limits decided by the country authorities requesting the ESF**. Food and fuel price shocks have a strong fiscal impact, therefore IMF support should be available to countries who face BOP shocks that have such a fiscal impact. Access amounts should not be limited to 25% in the rapid-access component and 75% in the high-access component. Country authorities should be able to decide how much access they need specific to their individual country contexts, within the thresholds of their national-level debt sustainability.
- **Transparency in the process by which the ESF has been modified**, needs to be dramatically improved. Draft policy documents on the ESF have not been made available, nor has the content of these papers been discussed with external stakeholders, such as parliament officials, civil society, trade unions, and academics. Transparency policy and participation processes at the Fund must be significantly strengthened in order to ensure the rights of stakeholders to access vital policy information and participate in decision-making in a timely and informed fashion.
- The IMF's policy **advice should also ensure maximum flexibility and domestic policy space**. The IMF's policy advice is often ideologically driven in favor of liberalization and fiscal austerity. Instead, the Fund should look at a range of policy options, and its advice should ensure maximum leeway for countries to decide what mix of subsidies, trade policies, and/or social safety nets, among other policy tools, are necessary to secure both economic and food security. The Fund's staff would better serve members' needs by helping authorities use desired economic policies most effectively, rather than setting a bias toward certain kinds of policies.

The IMF should also examine its own part in the food crisis in developing countries in order to ensure that policy mistakes are not repeated: the IMF's policy advice and conditions have contributed to the challenges faced by the agricultural sector through the emphasis on phasing out agriculture-related subsidies and liberalizing food imports.

We hope that the IMF will act swiftly to address the urgent needs of its most crisis-affected members by seriously considering and acting upon these key points. We look forward to further follow-up on this topic.

Yours sincerely,

Action Aid International
African Network on Debt and Development
Bank Information Center, U.S.
Bretton Woods Project, U.K.
European Network on Debt and Development
New Rules for Global Finance Coalition, U.S.
Oxfam International

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