UK Civil society statement on emergency financing

from organisations involved in the Put People First alliance:
ActionAid, Bretton Woods Project, Jubilee Debt Campaign, Stamp Out Poverty, TUC, Oxfam, UK Aid Network, World Development Movement, World Vision UK
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Introduction

The global financial and economic system is in crisis. Existing economic policies and institutions have overseen an economic system scarred by high levels of poverty and inequality, which is contributing to an environmental catastrophe. Before the financial crisis, people across the world and in Britain were already suffering from the effects of rising food prices, inadequate essential services and the threat of climate chaos. There can be no return to business as usual. Fundamental transformative change is needed in the economic and financial system. Support for emergency finance to mitigate the impacts of the financial crisis should in no way be interpreted as support for the current economic and financial system.

Need for Emergency Finance

Developing countries are being deeply affected by the economic crisis despite having had no part in creating it. Where necessary, they should be provided with emergency funds by the international community. It is the poor who are bearing the brunt of the crisis, the majority of whom are women. In addition women are more vulnerable to economic and social shocks than men due to their disadvantaged position in society.

Current estimates of the cost to developing countries are staggering. An early March paper from the IMF said those low-income countries most in need would require between $25 billion and $140 billion to cover the impact on their reserve positions, and that the total balance of payments shock for 39 low-income countries would be $165 billion for 2009.

The World Bank presented much higher numbers for all developing countries on 8 March, saying that developing countries would face a financing shortfall of between $270 billion and $700 billion this year when accounting for public and private debt and trade deficits.

It is clear that much more finance is needed to prevent economic collapse, increases in absolute poverty and the losses of human welfare. The UK contribution of £200 million to the World Bank's Vulnerability Financing Facility is much too small and not additional above existing aid commitments. While we understand that there is a concern that social protection will be ignored in the push for infrastructure and other types of finance, the contribution potentially sends the wrong signal to other donors about the size of commitments needed. Much more needs to be made available, for both middle-income and low-income countries.

Sources of Emergency Finance

However it is also clear that simply repackaging aid budgets into new funds and programmes is not going to be enough to help countries bridge these giant financing gaps, let alone undertake the policies needed to stimulate their economies. Developing countries must be given the emergency funds necessary to pursue the kinds of counter-cyclical policies currently being used by rich countries. Chief economist at the World Bank, Justin Lin has argued that low-income countries should participate in a global coordinated fiscal stimulus of $2 trillion over 5 years or $400 billion a year. A fiscal stimulus for low income countries of just 3% - 5% of their GDP amounts to $25 billion to $41 billion per year.

This could be provided through new taxes, particularly in the foreign exchange market, in order to control damaging short-term speculation on currencies and to raise funds for development and climate change adaptation. Aside from a currency transaction tax, additional funds could be leveraged from the existing multilateral institutions, but this must be done without the economic policy conditionality that has characterised their interventions in developing countries over the past three decades.

In the UK we would like to see the planned increases in aid sped up. Under current plans, the increase of ODA to 0.7% of GNI is mostly achieved in the last years running up to 2013. At a minimum, the commitments on absolute aid levels in the comprehensive spending review should be kept and the planned increases should be brought forward so that the UK approaches the 0.7% target much faster. Wider and deeper debt cancellation can also provide a mechanism to deliver quick and additional finance, which is predictable, non-cyclical and flexible. Further debt cancellation should be granted to a wider range of countries, without the economic policy conditionality that has caused so many delays in the HIPC process. For example research has found that 38 of the 43 countries deemed most vulnerable to the economic crisis in the World Bank's recent analysis[1], were calculated to have unpayable debts in 2008, before the crisis unfolded.[2]

There is also a chance for the existing multilateral institutions to leverage their balance sheets to provide more resources. There is also scope for capital increases for multilateral development banks. However the international financial institutions have in the past proven problematic in terms of respecting developing country policy space or protecting the human rights of the poor. Any IFI or MDB financing must be scrutinised to make sure it meets the modalities described below.

Modalities of Emergency Finance

Regardless of how funds are provided, there are four key principles that civil society organisations believe must be followed:

1. There should be no economic policy conditionality attached to the provision of finance. Insisting on certain macroeconomic policies, public expenditure cuts, deregulation, liberalisation and privatisation has interfered with domestic decision-making processes, has frequently led to serious and damaging impacts on poverty and the environment, has undermined core labour standards, has reinforced women's unequal position in society, and has contributed to the spread of the financial crisis.
2. There must be requirements for transparency in all payments, transfers and expenditure. Information must be made available in a format and language that makes it accessible both internationally and to all citizens in the country concerned.
3. The governance of any trust funds or other financing arrangement must respect the principles of partnership, participation, democracy, accountability and transparency. Any funds provided to existing international or regional institutions should go hand in hand with promises for fast-tracked reforms in the governance of the institutions.
4. The emergency provision should not sow the seeds of a new developing country debt crisis, especially as developing countries played no part in creating this financial and economic crisis. Transfers and grants rather than loans should be the preferred form of emergency finance.

World Bank

The World Bank often uses trust funds to manage donor resources additional to IDA contributions. The lessons learned about the governance of the trust funds should be applied in this case as well. The presence of recipient countries on the boards of any trust funds in at least equal proportion to

[1] The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens, World Bank policy note, February 2009
[2] Based on support tables for Debt relief as if justice mattered, new economics foundation, 2008

the donors is a bare minimum standard. UN institutions, external stakeholders, civil society organisations, especially women's organisations, and others should also have a voice. An increase in World Bank resources must go hand in hand with fundamental governance reform of the institution.

There are also concerns about the allocation mechanisms of the World Bank. The use of the Country Policy and Institutional Assessment (CPIA) to determine IDA allocation for low-income countries is fundamentally flawed, as it ignores need and vulnerability. The CPIA includes problematic assumptions about policy implementation and economic models; this needs to be avoided. Components of the VFF have proposed to use IDA allocation schemes. In the case of this crisis, allocation must clearly and transparently be based on the financing gaps facing countries and their need in terms of meeting the poverty reduction and human development targets.

For middle-income countries, an interesting possibility is the World Bank guaranteeing sovereign debt issued by developing countries. This could significantly reduce the financing costs of market-access countries, as the World Bank is currently enjoying very low coupon rates on its bond issuance. These operations could be conducted through the Bank treasury, bypassing the conditionality usually set as part of investment lending or development policy lending.

IMF

Developing countries have argued for many years that the IMF needs a permanent increase in its resources in order to meet the potential demands placed on it in a crisis. This has been proven correct by the current crisis and the scramble to raise more resources. However the permanence of an increase in IMF resources must go hand in hand with fundamental governance reform of the institution. A double majority decision making system could be implemented immediately. The next planned quota review, to be completed by 2013, must be brought forward and commence immediately with a view to concluding the next round of adjustments within a year.

More importantly, IMF resources have in the past been harmful rather than helpful because of the conditions attached. While the IMF is now incorporating clauses protecting social spending into crisis lending packages, it must eliminate harmful and pro-cyclical economic policy conditions. As private banks have been told that they will not need to rebuild their capital buffers until after the crisis ends, countries and governments must be given the space to use counter-cyclical fiscal stimulus now and then rebuild reserves in the future. This is especially the case in relation to public sector investment. Countries must not be forced to cut public sector wages and pensions, feeding into a downward economic spiral of reduced spending and reduced growth.

The IMF facilities review has been going on behind closed doors, with little input from civil society. Some of the recent changes are steps in the right direction but do not go nearly far enough. For low-income countries, the changes to the exogenous Shocks Facility (ESF) indicate the way forward. Access limits on the ESF need to be increased by orders of magnitude, if not eliminated altogether. Currently only the first 25% of funds under the ESF are provided conditionality free. Instead all funds should be provided conditionality free.

Lessons from the design of the ESF should inform the redesign of the short-term liquidity facility (STLF). The STLF has proven to be a failure due to the traditional problem of stigma associated with signing up to the use of the facility. The need for application and preapproval are problematic. The ESF model of providing conditionality-free disbursements to any low-income country member should be followed, so that any new short-term liquidity facility would provide automatic access, high access limits, and no conditionality.

Finally, an allocation of SDRs is incredibly useful as these are conditionality free. It is heartening that the US Treasury secretary has announced that he will resubmit to Congress a bill to authorise a special one-time allocation of SDRs for countries who are members of the IMF but hold no SDRs. That will include much of Central and Eastern Europe, countries with particular financial need. But an additional allocation of SDRs should be made to help all developing countries cope with the financial crisis. If developed countries then gave their share of the SDR increase to developing countries – it would amount to a new source of external finance for the countries that receive them.

Purposes of Emergency Finance

Developing countries must be able to use the funds at their disposal to enable them to stimulate their economies, protect jobs and livelihoods, and provide social protection schemes to support poor people.

Social protection

There is concern about the Bank's approach to safety nets rather than social protection. In providing short term, emergency assistance based on the safety-net model through a global fund such as the proposed Rapid Social Response Fund (RSRF) it is imperative that this complements long term developments in social protection and helps build country level capacity and resilience against future large-scale economic shocks in low and middle income countries in the form of national social protection systems.

The fund could be a tremendous force for good if designed and implemented well. It is being introduced at a time when many countries have begun to build long-term, comprehensive and sustainable social protection systems designed to avoid the well-known pitfalls of short-term interventions and thus presents an opportunity to support and expand those systems. Its implementation must be based on the principle that short-term interventions to protect the most vulnerable are linked to a feasible and pragmatic path for the establishment of a national social protection system. It is only recently that social protection has come to be seen as part of an approach to poverty reduction that can promote both economic growth and social cohesion in low-income countries. Such an approach, however, requires a long-term vision, sustained support and on-budget funding. The introduction of instruments to manage the negative economic impacts of shocks must not allow us to ignore, yet again, the broader issues of social vulnerability and resilience or we will be forced to continue with short-term ad hoc safety net responses for many years to come.

The fund therefore needs to be used in ways which contribute to building long-term sustainable social protection systems, in particular with a focus on establishing the ILO's proposal for a social security floor (universal child grant, universal pension and comprehensive disability benefit). It should concentrate on building implementation capacity and better systems to resist future shocks after this crisis winds down. We are concerned that short-term, emergency funding may be accessed and disbursed by government departments which are not, in the longer-term, those charged with the development of national social protection systems and therefore the opportunity for institutional strengthening may be lost.

In supporting developing countries' efforts to strengthen their social protection systems, the international community must learn from experience. It is essential that social protection programmes are as simple as possible since more complicated systems will stretch the administrative capacity of low income countries. Evidence indicates that the most successful form of reaching those most in need is through universal, categorical targeting such as universal old age pensions, child grants and disability benefits. Such schemes are also very popular with citizens and are simple to implement, significantly reducing the likelihood that funds will be used for corrupt purposes or manipulated by local elites.

Impact monitoring

Developing countries should be supported to analyse and mitigate the gender specific impacts of the crisis. Based on the lessons of previous global shocks and emerging evidence[3] these are likely to include disproportionate impacts on women in the areas of health, education and employment, as well as on women's rights in the long-term through the inter-generational impacts of household coping strategies that include removing girls from school, diminished health access for women, and increasing levels of social and domestic violence against women.

Green finance

Governments should use the investments to create a just transition to a low-carbon economy, based on justice and equality[4]. If the investments are in infrastructure, governments should bring forward green infrastructure investment programmes that can stimulate demand growth in the short term and raise productivity growth in the medium term without compromising environmental sustainability. New jobs can be created in green construction, green energy, green transport and green financing.

Public sector

Governments should also be enabled invest in and strengthen public provision of essential services to ensure universal access to education, basic health care, water, sanitation and housing, and to increase secure jobs and pensions within the public sector particularly for teachers and health workers. In the past IMF lending conditions have shrunk the public sector by cutting back on investment and restricting the size of the public sector work force. This is the wrong approach if counter-cyclical policies are to be pursued. Lessons must be learnt and this must be avoided.

Conclusion

The Put People First alliance has called on the UK government and other countries to seize this opportunity to start building a global economy that puts people and the planet first. If this is done in a participatory and inclusive way, it will be a long process. In the mean time we urge sufficient emergency funding for all countries that need it, to enable them to undertake counter-cyclical economic policies, protect jobs and provide social protection. These funds must be provided without conditionality attached.

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[3] Mayra Buvinic, World Bank, 2009, The gender perspectives of the financial crisis (New York: UN); ILO, 2009, Global Employment Trends for Women (Geneva: International Labour Office); S. Baden, 1993, The impact of recession and structural adjustment on women's work in selected developing countries, Bridge Report 15 (Univ of Sussex: IDS); Floro, Maria and Gary Dymski. 2000. Financial Crisis, Gender and Power: An Analytical Framework. World Development 28(7): 1269-1283; Buchmann, Claudia. 1996. The Debt Crisis, Structural Adjustment and Women's Education. International Journal of Comparative Sociology 37(1-2): 5-30

[4] Emergency finance directed at green efforts must be separate from rich countries legal obligations to provide support to developing country adaptation and mitigation efforts.