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Education on the brink

Will the IMF's new lease on life ease or block progress towards education goals?

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CONTENTS

GLOSSARY OF ACRONYMS

DFID – Department for International Development

EFA – Education For All

ESAF - Enhanced Structural Adjustment Facility

ESF – Exogenous Shock Facility

FCL Flexible Credit Line

FTI – Fast Track Initiative

GCE – Global Campaign for Education

GDP – Gross Domestic Product

GNI – Gross National Income

G8 – Group of 8

G20 – Group of 20

IEO – Independent Evaluation Office

ILO – International Labour Organisation

IMF – International Monetary Fund

LIC – Low Income Country/Countries

MDGs – Millennium Development Goals

PRGF – Poverty Reduction Growth Facility

PSI – Policy Support Instrument

PTR – Pupil Teacher Ratio

PTTR – Pupil Trained Teacher Ratio

SAF – Structural Adjustment Facility

SAP – Structural Adjustment Programme

SBA – Stand By Arrangement

SDR – Special Drawing Rights

UK - United Kingdom

UNDP – United Nations Development Programme

UNESCO – United Nations Educational, Scientific and Cultural Organisation

US – United States

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INTRODUCTION

When world leaders gathered in 2000 to pledge education for all by 2015 there were 100 million children out of school. Since then there has been dramatic progress made so that today there are 25 million fewer children out of school and, given population growth, 40 million more children are in school. Clearly progress needs to be accelerated in the coming years if the goals are to be achieved, but with the onset of the global financial recession in 2008 there are fears that this progress may be stalled. Much depends on how governments respond to the financial crisis and whether investment in education is seen to be part of the solution to the crisis.

To date the most significant global response to the global recession has been the meeting of the G20 in London in March 2009. Leaders at the G20 Summit emphasized their commitment to implementing national fiscal stimulus packages to maintain high spending levels and buoy global trade levels. National fiscal stimulus packages could help to protect and expand spending on education – as they have in countries like the US and UK. Indeed, investments in education and training were signaled in the G20 Communiqué as a priority to stimulate the economy - and as a key strategy to get out of the global recession. However, these warm words about education were focused on the G20 countries themselves – and most of the children out of school around the world are in low income countries (LICs).

For LICs, the main response from the G20 was to make funds available to them through the International Monetary Fund (IMF). The following specific pledges were made:

- $250 billion to be created in Special Drawing Rights (SDRs), a conditionality-free allocation of the IMF's reserve currency. Sadly only 7.5 percent of this ($19 billion) seems to be available for LICs. Despite the ability for richer countries to reallocate these to LICs it is unclear which of them, if any, will.
- $500 billion in funding pledges (for the IMF), $250 billion available now and $250 billion to be approved later. It is unclear what part of this will reach LICs and if it does, what conditions may be attached.
- $6 billion in "concessional finance" for the poorest countries to be generated by IMF gold sales. However the agreement on how the gold would be sold is yet to be taken as are the conditions under which the funds would be available to LICs.

The sums likely to be available for LICs are much smaller than the huge sums used by rich countries for the bailouts of banks and to protect their economies. Nevertheless, thanks to the efforts of some, there certainly appears to be an opportunity to mobilise some funding for LICs, who amidst the crisis, may not be able to have a credit line elsewhere.

The question to raise however is which conditions will be attached to this funding. The lessons from history show how expanded lending by the IMF after previous recessions forced harmful economic policies on LICs that actually inhibited growth and damaged education and health sectors. Given that the richest countries have now rejected much of this economic orthodoxy (for example suspending public sector borrowing targets and concentrating on economic stimulus packages) it is vital that all countries are allowed to make similar choices. Education and health advocates have raised serious concerns over the years about how the IMF's traditional macroeconomic conditions have undermined rather than facilitated investment in education. If these conditions are continued it is unlikely that LIC governments will be able to design their own fiscal stimulus packages that will maintain education spending in the same way as most of G20 countries are planning to do for themselves. Unfortunately in the last summit, the G20 did not condition their support to the IMF on reform to these conditions.

Indeed, it seems that the motivation of some of the new countries sitting at the G20 table was to get a greater say in the governance of the IMF (breaking the dominance of G8) - and not enough attention was paid to the need for wider reforms of the IMF.

This new investment in the IMF seems to have given it a new, expanded role. Before the global financial crisis the organisation was struggling to define its role in the world and there were serious questions raised about its legitimacy.[1] Now the IMF not only has the resources to reassert its authority over macroeconomic policies in LICs but it also has an effective monopoly over the control and stewardship of the financial resources intended to spare countries the worst pain of the current global downturn.

There are some promising signs. The Managing Director of the IMF, Dominique Strauss Kahn has emphasised the need for reform and has promised a significant review of the conditionalities attached to loans to LICs. This paper will explore whether these signals and agreements between the IMF and LICs made since the September 2008 financial crisis are sufficient to make education advocates optimistic for the future.

The first section of this report makes the case for investment in education, specifically in teachers, as a key part of the response to the recession in LICs. Section 2 outlines the obstacles to expanding investment in education – and scrutinises how the traditional policy conditions and recent policy changes made by the IMF affect education. Section 3 then looks at the promises of change and the new instruments being developed. Has there been any change in practice in the IMF's approach since the global recession became clear in September 2008? Section 4 asks whether aid can be part of the solution and explores how the IMF policies impact on aid to education. Finally we draw conclusions and lay out recommendations for the future.


Alex Kent/Global Campaign for Education

1. THE CASE FOR EDUCATION

"[*The*] *last thing a government should do in the middle of a recession is to cut back on spending*", US President Barack Obama[2]

The human right to education has been affirmed since the writing of the Universal Declaration of Human Rights, and has been re-asserted in countless international conventions and treaties as well as in most national constitutions. The Education For All (EFA) and Millennium Development goals (MDGs) set in 2000 are the latest targets keeping the world's states on track to fulfilling this responsibility. In the context of the present global financial crisis there is a better case than ever for making accelerated progress on delivering on this fundamental right.

Increased public investment in education is an obvious and key strategy for helping countries to endure and emerge from the global financial crisis. Educated and healthy people have the best opportunities to participate in and make lasting contributions to their societies, and are the strongest line of defense for any country's economic survival and comeback. The benefits of education itself - as a first-line of defense in and a solution to economic downturn - and as a high-return, long-term investment - are touted by wealthier governments as a key domestic policy and budget item. Unfortunately nowhere in the global bailout actions and stated plans is there a call for - nor a commitment to - the reforms to education financing that are needed[3] to approach, let alone meet, EFA goals by 2015.

Education provides one of the smartest, most cost-effective and most equitable strategies for long-term sustainable development. The links between education and other benefits have been well-known to development experts for a long time. Perhaps for this reason not one, but *two* of the EFA goals – universal primary education by 2015 and gender parity in education by 2005 – were adopted in the MDGs.

- Educated people are healthier people. HIV/AIDS infection rates are halved among young people who finish primary school. If every girl and boy received a complete primary education, at least 7 million new cases of HIV could be prevented in a decade[4].
- Education combats hunger. Gains in women's education made the most significant difference in reducing malnutrition between 1970-1995, a more important element than increased food availability[5].
- Education saves lives. A child born to an educated mother is more than twice as likely to survive to the age of five[6].

Perhaps most striking in the current context is the economic case for education. Good quality education equips people with the knowledge and skills they need to gain employment and increase their incomes, which in the right conditions can have a real impact on overall poverty and growth at a national level. Studies have consistently shown that more schooling is associated with improved economic performance at both an individual and societal level. A person's earnings increase by 10 percent for each year of schooling they receive, translating to a 1 percent annual increase in GDP if good quality education is offered to the entire population[7]. Not only that, if done right, education can lead to a more equitable development for societies striving to ensure that benefits accrue to everyone[8]. Sadly current IMF growth forecasts focus on a 3 to 5 year period and fail to include any longer term growth returns - leading to a systemic under-representation of the economic benefits of education investment (which come over an 8 to 15 year period, when children who leave school enter the workforce).

This restricts many countries in Sub-Saharan Africa from following the education expansion that worked so well for the South East Asian economies in recent decades.

Aside from the long-term benefits of investing in education, it also makes sense in the short-term given the need to stimulate economic growth. Developing countries are just starting to feel the impact of the financial crisis as export earnings start to fall and companies close down. Recent estimates from the International Labour Organisation (ILO) show that between 30 – 50 million more workers in developing countries will be unemployed if the crisis persists. This would push 200 million people into extreme poverty.[9] For many women with lower education attainment levels, unemployment rates are expected to be higher than they are for men.[10] In order to protect the most vulnerable as unemployment rises governments must be able to guarantee continued investment in key social sectors such as education and health.

Amidst the financial crisis and constrained budgets, there is concern that education and health budgets may be cut rather than protected or expanded. The obvious target for cutbacks will be the single largest budget item in education – the teacher workforce. This is madness. Cutting back on education spending by freezing teacher recruitment will lead to higher pupil-to-teacher ratios (PTRs) and a fall in the quality of education, pushing more children to drop-out. Cuts to the health budget will force women and girls to take on the care of sick family members. For many girls, more responsibilities at home will mean that they can no longer go to school. We have already missed the gender parity target in primary education (set for achievement in 2005 and missed by over 70 countries),[11] but reducing spending on teachers and health workers will move us further away from ever attaining this objective.

Hiring ***more*** teachers is in fact an effective economic strategy to help countries reverse the negative impacts of the financial crisis. Expanding numbers of public servants such as teachers and health workers puts money in people's pockets and provides jobs for the unemployed across both rural and urban areas. The logic is that with more money in their pockets, people are more likely to buy more goods and services helping to keep business and trade afloat. This would help to stimulate economic activity in both urban and rural areas in poorer countries where income generating activities, like export production, are failing. Schools are often the last outpost of the state in rural communities and increased investment in education will stimulate activity in these harder to reach micro –economic systems. For women who are expected to experience higher rates of unemployment, expanding public sector employment is one way to put money into a field with high female employment, while providing much needed social services such as education for all.[12]

The Squeeze on Teachers

Education is one of the soundest investments any country can make. Yet policies and practice over the past decades have ventured away from financing and building a trained teacher workforce, which in turn has opened the door for on-going attacks on the teaching profession. Teachers are expected to teach subjects outside their core competency, to be held accountable for students' performance and improving learning outcomes despite having little or no training and working in classrooms with PTRs as high as 78:1 --and often over 100:1 in rural areas[13]. They are also increasingly required to fulfill these duties as informal employees with lower pay and less employment stability than public sector employee teachers traditionally have.

UNESCO projects that 18 million new teachers need to be trained and employed between now and 2015 if all the 75 million children out of school are to gain access and all children are to be taught in manageable class sizes (of 40:1) which enable quality and positive learning outcome. Teachers are the backbone of any education system.

Financing a national education system includes financing the *recurring costs* of training, hiring and retaining skilled people to teach future generations. Full funding to close the global education financing gap –currently estimated at $16 billion[14]- is one of the best forms of crisis-response aid wealthy donor governments can make to LICs, and should therefore be at the forefront of policy makers' agenda. It is significantly less than the sums invested in recent months by a number of G8 countries in single banks - and yet filling the education financing gap would have huge global returns. Yet the world's teachers, and their role laying a foundation for human welfare, let alone economic recovery, are conspicuously absent from global leaders' recent crisis-response rhetoric and the policies aimed at the world's poorest countries. Even before the crisis, foreign aid donors had historically not managed to fulfill their pledges for short-term financing[15]. In the current crisis atmosphere in which donors are reducing their foreign assistance budgets, the political will and financial resources to make and keep the longer term commitments necessary to hire teachers and scale up the sector have weakened - just as they become most acute.

In countries attempting massive scale-up of education to absorb out of school children, it is essential to invest in teacher recruitment and training, protection of professional standards (and restoration of them where they have eroded) and fair remuneration of teachers. Until such time as domestic budgets can shoulder the recurring costs that are teachers' salaries, along with the up-front investments needed for appropriate teacher training, donors will have to step in and provide predictable aid flows of sufficient volume. In the current environment in which northern governments are designing and financing massive stimulus programs, some of that additional spending should be directed specifically for LICs to enable them, too, to engage in the stimulus spending needed to counter-act and stay afloat amidst global economic contraction.

As noted in the introduction, from 2000 to date, school enrollment rates have jumped sharply in various countries (especially following the eradication of school fees). One effect has been that PTRs have climbed and donors and governments alike have scrambled for strategies to quickly build teaching forces. In response to budget constraints, some governments have been compelled to implement various forms of cost-cutting strategies, including promoting para-teacher arrangements; financing short-term teacher training efforts; tolerating PTRs much higher than 40:1[16]; and allowing communities to contract locals, some with no formal training, to serve as teachers in rural and hard to reach areas. These policies and practices have frequently been endorsed and actively promoted by the World Bank and donors; their effect has been to undermine both the teaching profession as a whole and the quality of education. Yet the right to education extends far beyond just containing children in an overcrowded room with an under-trained teacher for year upon year[17]. A key part of the global response to the financial crisis must therefore be to reverse this violation of rights and increase investment in quality education.


Jenny Matthews/ ActionAid

2. WHAT'S BEEN BLOCKING RECRUITMENT OF TEACHERS?

2.1 Ceilings on Public Sector Wage Bills

As with all other government expenses, the amount that can be spent on teachers' salaries is determined by a number of macroeconomic and budgetary targets set by the Ministry of Finance. In many low-income countries, those targets are influenced by quantitative targets in IMF loan programmes. On top of overall budget limits, the government often sets a ceiling on the public sector wage bill, through which doctors, nurses, police, ministry staff and amongst others, teachers, are hired. At times a cap specifically targeted at a particular group (teachers) is also placed to control expenditure.

Placing a limit in the form of a ceiling on the public sector wage bill is wise resource management. It is important to monitor expenditure and ensure that government does not overspend on wages, potentially making fewer resources available for other priority sectors. The question to ask is who sets the ceiling and based on what considerations?

The level of any public sector pay ceiling has a direct impact on teachers because they make up the single largest group on the public sector wage bill. For example, studies from 2007 show that in Malawi teacher salaries make up 37 percent of the total wage bill and up to 35 percent in Sierra Leone and Mozambique.[18] In practice these ceilings are usually set without consulting the Ministry of Education about the number of teachers needed – even where education systems are expanding, with millions more children enrolling in school. Instead, Ministries of Education are usually informed by Ministries of Finance of their allocation within the ceiling to hire more teachers. This policy process impedes their ability to hire and train the number of teachers needed to provide quality education for all. Crucially many Ministry of Finance projections factor in neither the long-term economic growth nor the short-term economic returns that would result from investment in teachers. Cutting back on the number of teachers now could constrain economic growth and prolong the recession – yet many governments are not encouraged to take this into account.

Until 2007, many IMF loans to developing countries through Poverty Reduction and Growth Facility (PRGF) programmes came with a condition that a specific ceiling be placed on the wage bill. The IMF began setting the ceilings to enforce strict deficit-reduction targets, particularly in countries which repeatedly failed to comply with such targets. Such ceilings on the wage bill ignored national projections of the number of teachers or health workers required to improve education and health care. This IMF conditionality pigeon-holed the government into making difficult choices on how to distribute and rationalize expenditures. In most cases, this ceiling has meant that governments have been unable to hire enough trained teachers and instead turned to hiring under-qualified or untrained teachers (who can be hired for a third of the pay of a professional teacher) as a way of ensuring expenditures do not exceed ceilings placed on the wage bill by the IMF.

Tom Pietrasik/ ActionAid

A quick look at the main IMF assistance instruments[19]

Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF)—1987-1999

- Often referred to as Structural Adjustment Programmes (SAP)
- Main IMF instrument in developing countries in 1980s and 1990s
- Stringent macroeconomic conditionalities, highly criticized for cutting education and health budgets
- Not in use anymore, has been replaced by other lending facilities

Poverty Reduction and Growth Facility (PRGF) – 1999 onwards

- Successor to SAF/ESAF, for LICs and meant to be more flexible and more focused on poverty reduction
- Includes a three-year concessional loan with policy conditions sometimes including low fiscal deficits and wage ceilings and single-digit inflation targets
- Macroeconomic framework designed by the IMF, Ministry of Finance and Central Bank

Policy Support Instrument (PSI) – 2005 onwards

- For those low-income countries considered 'mature stabilisers', after having completed successful PRGF programmes and showing a proven track record of control over monetary and fiscal policies, including controlling wage expenditures
- No loan, only policy advice from the IMF but analysis shows similar macroeconomic policies are implemented within this framework

Exogenous Shock Facility (ESF) – 2005 Onwards

- Includes a loan (concessional)
- Quicker access than PRGF
- Specifically aimed at countries facing an economic 'shock'

Stand-by Arrangement (SBA) – part of the General and New Arrangements to Borrow, first established in 1962

- Includes a loan, but non-concessional, i.e. 'harder' borrowing terms
- Quick, short-term assistance to deal with temporary macroeconomic imbalances
- Usually targeted at/used by middle-income countries
- Increasingly popular since the start of the financial crisis

Special Drawing Rights (SDR)

- Synthetic currency, can be used to boost reserves and/or increase global liquidity
- Assigned based on quota shares in the IMF (i.e. very small amounts can go to LICs)
- No conditionality attached, concessional interest rates
- Scantly used since the creation of the IMF, but discussions to revive it as an instrument at last G20 meeting

Flexible Credit Line (FCL)

- For countries already considered 'good performers'
- Very new lending arrangement, to date only Mexico and Poland have accessed it
- Includes a loan
- No conditionality attached, but strict pre-conditions to access it
- Not on concessional terms so most LICs would not be allowed access because of debt sustainability

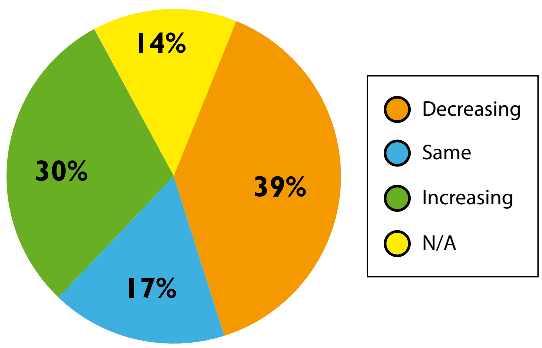
Wage bill ceilings: the story

For many years the IMF denied that low wage bill ceilings compromised the provision of quality education, finally issuing a paper on this policy in 2006.[20] The Fund argued that teacher recruitment was blocked due to weak government administration and poor teacher training programmes. However, three reports by civil society groups in 2007 argued that low wage bill ceilings were blocking the recruitment of public sector workers: (a) ActionAid's report, *Confronting the Contradictions* showed how ceilings were blocking teacher recruitment in Malawi, Mozambique and Sierra Leone; (b) the Centre for Global Development's report *Does the IMF Constrain Health Spending in Poor Countries* [21] and (c) WEMOS' report on *IMF and macroeconomic policies and health sector budgets.*[22] Several successive reports from other groups[23] and successful lobbying from these and other civil society groups and a critique coming from the Fund's own Independent Evaluation Office (IEO) pushed the IMF to revaluate its policy.

In September 2007, the IMF acknowledged that wage bill ceilings have and continue to impact teacher recruitment and committed to moving away from them in their loan arrangements.[24] "Directors called for staff reports to justify in a transparent manner the use of wage bill ceilings and for a reassessment of their need and rationale at the time of program reviews.[25]"

GCE's 2009 analysis of currently active PRGF arrangements shows that wage bill ceilings have effectively disappeared from the formally binding conditions attached to loans, with Burundi being the only country where it is still an indicative target of performance. While this is an important step in the right direction, ***removing the IMF-imposed ceiling does not mean that the wage bill will increase or that the damage of recent years will be reversed***. In fact, our detailed analysis of 23 low-income countries that have had a review of their current arrangement with the IMF (either PRGF, PSI or ESF) since September 2008 shows that only seven of these countries (30 percent) project their wage bill to increase, with 39 percent (9 countries) actually projecting to *decrease* their wage bill as a percentage of GDP within the next 3 yeas.

Wage bill targets as % of GDP - 23 countries*



Source: *Latest PRGF, and PSI reviews ,or ESF requests, http://www.imf.org/external/country/index.htm*
** 23 countries with currently active IMF agreement (PRGF, PSI or ESF) and a review available since September 2008.*

This pie-chart shows that removing the formal conditionality on wage bill ceilings has had little to no effect on their relative levels. Why is that the case? Quite simply because there are other IMF macroeconomic and budgetary targets that prevent governments from increasing the wage bill, even when there is no externally imposed ceiling. Far from reversing the damage caused in recent years – these other conditions ensure that the wage bill ceilings remain low.

Why are wage bills not increasing?

In making a loan arrangement with the IMF, LIC governments agree to comply with a number of quantitative targets, including deficit-reduction targets, which directly limit overall government spending, and therefore the amount that can be spent on public sector wages. Generally speaking, the Fund's macroeconomic framework is used to judge that a country is 'stable' if "*current-account and fiscal balances [are] consistent with low and declining debt levels, inflation in the low single digits and rising per capita GDP*."[26] Over the period of an IMF arrangement, countries are expected to work towards meeting these and other strict quantitative targets, which directly limit overall government spending. Increasing current investments in education either by spending or borrowing more means governments risk failing to comply with these IMF targets. A 2009 policy brief from UNDP's International Policy Centre for Inclusive Growth finds that Kenya, Malawi and Zambia continue to face the same obstacles on wage ceilings and absorbing aid despite the Fund's commitment to change.[27] This is in stark contrast to the freedom with which the richer economies (who control the IMF Board) have been acting in their own economies. It is vital this contradiction is bought to an end as soon as possible by the G20 – and that they support an increase in education investment and teacher wage bills as part of the global stimulus package.

2.2 The IMF's policy bag: low to single digit inflation; low to no fiscal deficit and building up reserves

This section reviews the merits of three of the IMF's key policy conditionalities, all of which have a significant potential to impact on spending on education, particularly for teacher salaries. These policies are promoted as "economic truths" by the IMF despite the growing challenge from economists worldwide on their impact on LICs. The 2009 review of the Fund loan facilities to LICs argues that on average, IMF policy conditions have resulted in "*significant long-term increases in real GDP growth, exports, reserves, and foreign direct investment (FDI) while also achieving noticeable reductions in inflation and external debt as well as fiscal deficits*."[28] The IMF Board thus concluded there was no need to change its policies. However, interestingly enough, 22 of 41 mission chiefs surveyed think that conditionality should be more flexible.[29]

Aiming for 'single-digit inflation'

The IMF has consistently pushed countries to bring down their inflation levels to 'single-digits' (in practice below 7 percent and ideally under 5 percent). It argues that inflation above 10 percent can hurt the poor because it raises the prices of basic consumer goods, can potentially drive away investors and undermine prospects for future economic growth.[30] Competing evidence from economists challenge the validity of this policy, specifically the level at which inflation negatively impacts both poverty and growth.[31] They argue that long-term growth is not affected by moderate double digit inflation.[32] Several major studies in the economics literature have attempted to identify the point at which inflation begins to undermine future GDP growth rates and the studies have resulted in a wide range of estimates from 7 percent upwards, indicating that there is no consensus among economists yet on the exact answer to this question and the need for further research.[33] Furthermore, there are serious consequences to the IMF policy, since the main way to lower inflation is by raising interest rates. Raising interest rates lowers potentially higher GDP growth, employment and tax revenues, and thus leads to much lower levels of public expenditure than could otherwise be possible, i.e., what economists refer to as the "sacrifice ratio"[34]. But the IMF believes that low inflation is more important than other social spending or public investment goals.

To keep inflation extremely low, the IMF focuses on constraining the growth rate of the money supply. But when governments increase spending on the wage bill, either by hiring new employees or raising salaries, it is in effect putting more money into people's pockets and into circulation within the money supply economy, and risks jeopardizing the IMF's strict monetary policy targets. Yet investment in education will increase productivity in the long term and not have the long-term inflationary impact that is ascribed to it. This is a route recognized by many South East Asian countries in previous decades but a route unavailable to many LICs today.

There can be genuine concerns over potentially very high levels of inflation, however it must be recognised that like any policy, there are serious trade-offs involved in always pushing the targets down. The cost of raising interest rates in order to satisfy IMF demands to push inflation down to 5 percent or less can mean that consumer demand will decrease and the economy will slow, resulting in less GDP growth, less employment, less tax revenues collected and consequently, less public expenditure than otherwise could be possible. The resulting social costs can be tremendous, and mean the government will not be able to spend as much on essential social services such as hiring more teachers, as it otherwise could have.[35] Yet the IMF disregards such trade-offs when insisting on low inflation at all costs. What is needed is a more balanced assessment by a much broader group of public stakeholders of the short-term and long-term costs and benefits of a range of alternative monetary policy options, including more expansionary policies that could accommodate moderate inflation and higher growth, employment and public expenditure. Such alternative approaches have been effectively excluded from consideration by IMF targets for much of the last 25 years, but will be essential for enabling a scaling-up of spending to meet the MDGs and to combat the current global economic recession.

Lowering fiscal deficits

Any expenditure by a government above and over its own current revenues requires them to go into what is known as 'fiscal deficit'. Having an arrangement with the IMF often means limiting fiscal deficits and government borrowing, which also involves trade-offs in terms of long-term investment and planning. There are of course legitimate fears that lead the IMF to discourage governments from borrowing. Incurring debt in the immediate term can serve to undermine government investments over the long-term as debt repayments become too burdensome. Yet not to consider government borrowing at all can unnecessarily restrict the set of macroeconomic policies available to governments.[36] This is especially true when considering investments in areas that will deliver an economic return over the same period such as expanding access to quality education. The dire needs of education systems in LICs, are a needed investment that in the context of the financial crisis will also reap immediate short-term gains by generating employment along with the long-term benefits of building a skilled and educated labour force which will contribute to economic growth. It can make sense to invest more in education now in order to reap returns in the future – but tight deficit targets make this impossible. These targets, as previously mentioned, have been suspended by many rich countries themselves during this financial crisis.

As the next section will show, countries with active IMF arrangements still have to uphold very tight deficit and inflation targets. Therefore, even though IMF-imposed wage bill ceilings have been removed for the time being, because of these other macroeconomic targets, it is still difficult for countries to increase their wage bills. Countries then cannot hire the required number of well-trained and adequately paid teachers to reach EFA goals. There is a need for a clear statement from the IMF and the G20 that increased investment in teachers and expanding access to quality education will assist LICs, and that in future IMF instruments and policies will take this into account.

It is also important for education advocates to keep a careful eye on upcoming IMF arrangements, as the current international financial crisis could be used as an excuse to bring back wage bill ceilings as loan conditionalities. In fact, a 2009 IMF report on the implications of the financial crisis on LICs advised that: "*Public sector wage increases would also be a poorly targeted form of support and may not be sustainable*."[37] As an example, Latvia's recently approved Stand-By Arrangement with the IMF includes a 'fiscal adjustment' program which will see the wage bill go down drastically from 1.3 percent of GDP in 2009 to 0.4 percent in 2010.[38]

Such short sightedness is misguided given that a stimulus distributed to a significant portion of a country's population has a greater multiplier effect - which is often far more beneficial than big project stimulus projects that see money leave the LIC country through capital flight, corruption and international contractors. However it is even worse when it comes to education where investment in teachers would lead to future economic growth and increased GDP.

Building foreign reserves

Another common policy recommendation from the IMF is that countries build up their foreign reserves – which makes significant demands on available sources of foreign currency. For many poor countries, aid is a major source of foreign currency and this can have a significant impact on how aid is used and absorbed. If the Central Bank is under pressure to raise its reserve levels, it might be tempted not to transform the foreign currency received through aid into domestic currency. The consequence is that there is no net transfer of resources from developed to developing countries, i.e. no real new money.

The 2007 report from the Independent Evaluation Office (IEO) of the IMF showed than when reserves were below a threshold of 2.5 months of imports, foreign aid was in large parts not absorbed but instead used to build up reserves. In response to this finding, Directors instructed the Fund to support the full spending and absorption of aid, provided that macroeconomic stability is maintained and vulnerability is not a risk (vulnerability is defined as problems of inflation, low reserves, and/or high debt).[39] A floor on international reserves is still in many cases a condition in IMF loans, though it has also been observed that countries often tend to exceed those floors[40]. However, in light of the current financial crisis, maintaining high levels of reserves is emerging as a primary concern of the IMF for LICs, and this could potentially affect how Central Banks are encouraged to treat foreign aid. Given that education budgets in many LICs are highly dependent on aid, such pressures could negatively affect the education sector. If a major upscaling of reserves is needed the IMF should call on the G20 to reallocate a portion of its SDR to provide this. Rather than expecting LICs to find the money at the expense of domestic education and health budgets – anything less would contradict their commitments to Millennium Development Goals.

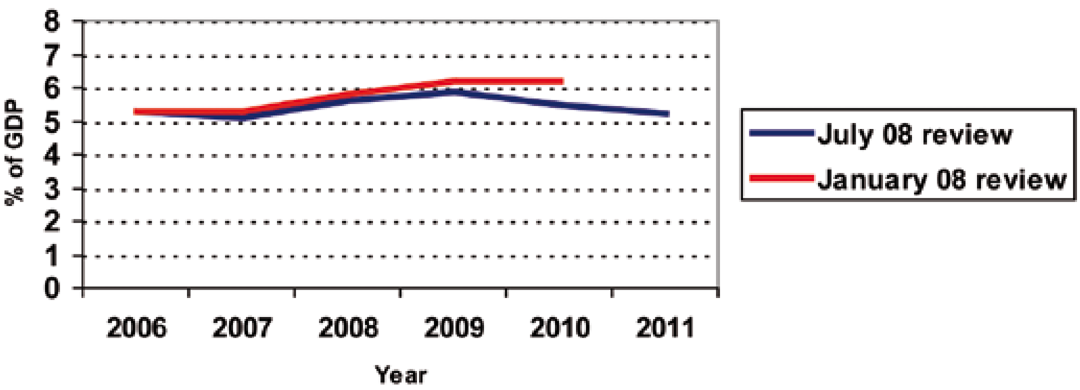
Given the negative impact of past IMF macroeconomic policies on LICs, especially on the ability to increase investment on education, and the new lifeline the IMF has recently been accorded by the G20, the question of an appropriate role for the Fund must be raised. Has the IMF learnt from the evidence that its traditional conditions are undermining education and other development goals in LICs and is it going to change in response to the present global financial crisis? The next G20 meeting must tackle this question.

Education vs macroeconomic stability goals: the case of Malawi[41]

Malawi has an unacceptably high PTR, currently 78:1, and in many rural areas well above 100:1. Not only is there a teacher shortage, but many teachers have received limited 'fast-track' training when thousands were hastily introduced into the system to cope with exponential enrollment following the introduction of free primary education in 1994. Currently 12 percent of primary school teachers are untrained, and 14 percent are either contract or volunteer teachers. This dire teacher situation means that learning outcomes are far from satisfactory and drop-out rates very worrying, as only 32 percent of boys and 27 percent of girls complete their primary education cycle.

While a sudden rise in enrolment will present a government with difficult challenges in terms of providing a sufficient amount of teachers (especially trained professionals), Malawi had to face particularly stringent macroeconomic and budgetary constraints, undergoing several IMF austerity programmes. Despite facing a sometimes difficult financial situation with very high inflation at the end of the 1990s, a worsening HIV/AIDS prevalence rate and a food crisis in 2002, the Government had to assure overly restrictive targets such as bringing down inflation to 5 percent and fiscal deficit to less than 1 percent. A limit of 7 percent of GDP was imposed on the wage bill as part of the PRGF arrangement, but following pressure from civil society education advocates, the IMF agreed to remove it as a condition for loans in early 2008. However this has not translated into an increase of the projected wage bill. The graph below shows that while the January 2008 PRGF review projected an increase of the wage bill to 6.2 percent of GDP, in July 2008 is was programmed for a decrease to 5.2 percent by 2011. If GDP was to fall due to the recession, this could translate into even fewer government resources to hire additional teachers.

Malawi: wage bill as % of GDP, 2006-2011



Malawi has recently requested a new loan under the Exogenous Shock Facility (ESF), a new type of arrangement aimed at helping countries deal with economic shocks/crisis. Restoring macroeconomic stability is a key aim of the arrangement, and concerns have been expressed over low levels of foreign reserves Mr. Takatoshi Kato, IMF Deputy Managing Director, was quoted in December 2008 as saying: "The government's planned reduction in domestic borrowing in 2008/09 is a key element of the fiscal adjustment. To this end, it will be important to enhance fiscal discipline, including through further improvements in public financial management. Spending pressures will need to be resisted, particularly in the run-up to the May 2009 general elections, in order to safeguard foreign exchange reserves and priority investments". These recent developments put into question whether or not it will be possible for Malawi's Ministry of Education to steadily increase the number of teachers needed to reach the EFA PTTR (Pupil Trained Teacher Ratio) benchmark of 40:1. Today, it is estimated that 90,477 teachers would be needed to meet that goal but for the moment only 45,697 teachers are employed.

3. HOW NEW *IS* THE NEW IMF?

In the months since the financial crisis hit, the IMF has repeatedly made statements pointing towards substantive change:

"*The IMF is mounting an extraordinary response to what is an extraordinary crisis facing the world's poorest economies"*-- Dominique Strauss-Kahn, IMF Managing Director[42]

"*To contain this crisis we need urgent action around the world. We need financial market measures, in order to get credit flowing again. We need monetary and fiscal policy measures, to offset the abrupt fall in private demand*."-- Dominique Strauss-Kahn, IMF Managing Director[43]

"The priority for Africa and the international community must be to ensure that the continent weathers the global financial storm, preserves the significant achievements of the past decade, and continues to make decisive progress in combating poverty. This is not the time to take a break from efforts to achieve the United Nations' Millennium Development Goals" – IMF Managing Director Dominique Strauss Kahn[44],

One would expect, in accordance with such statements, that the IMF would advocate increased spending for LICs, that it would unveil new, innovative financial facilities differing greatly from pre-crisis facilities, and that it would develop alternatives to its usual restrictive monetary and fiscal policies. The impression given by the IMF's Managing Director is that the IMF will pursue macroeconomic policies aimed at achieving the MDGs and providing financing for those countries who cannot afford the short-term deficit spending necessary to get people through the crisis. Given the challenges made to the past governance of the IMF one might also expect governance reform to be part of this new era for the IMF. Certainly the IMF agreements forged with countries seeking refuge from the financial crisis would hold the clearest evidence of how these statements translate into practice, so a quick review of governance and of the old and new instruments should be revealing.

3.1 Are There New Trends in IMF Arrangements with LICs since September 2008?

A detailed look at all currently active IMF arrangements with LICs which have had a review since September 2008, when the financial crisis hit, show that contractionary targets are still a key element of IMF arrangements. These include PRGF, PSI, and ESF arrangements for a total of 23 countries. The projections for wage bill, inflation rates and fiscal deficits are an indication of the targets that such arrangements entail, however they are not necessarily direct conditionalities for loans (which vary from country to country). In addition to the trends in wage bill projections discussed above, long-term targets show that 'single-digit' inflation is still very much a goal of IMF arrangements as **87 percent of countries are aiming to bring down inflation below 7 percent by 2011, and 61 percent to or below 5 percent.**

Low fiscal deficits are also a central concern, as **43 percent of countries are expected to bring their deficit down to below 3 percent**, which is the European Union common rule on fiscal deficit. In the current economic context, most European countries will be breaking that rule themselves.

The UK is currently projecting to run a deficit over 10 percent of GDP in 2009[45], with the US projecting 13 percent of GDP for the same period.[46] In a context where most rich countries are pursing these expansionary policies, 48 percent of LICs with IMF arrangements are expected to *decrease* their deficit in the face of what many say is the worst economic crisis the world has seen since 1929.

Georgie Scott/ActionAid

An overview of recent trends in wage bill, inflation, fiscal deficits and reserves targets in IMF arrangements for low-income countries—23 countries with PRGF, PSI or ESF reviews since September 2008

Country	IMF arrangement	Wage bill (% of GDP)					Inflation rate (CPI end of period)				≤ 5% by 2011	≤ 7% by 2011
		2008	2009	2010	2011		2008	2009	2010	2011		
PRGF countries (latest reviews)												
Albania	Feb-09											
Benin	Dec-08	5.7	5.7	5.7	5.7	s	13.1	3.7	3.3	2.8	X	X
Burkina Faso	Feb-09	5.6	5.5	5.4	5.2	↓	5.5	3.5	2	2	X	X
Burundi	Mar-09	11	10.7	10.5	9.9	↓	22	9	7.5	6		X
Cameroon	Feb-09	5.5	5.9			↑	4.5	2.6	2	2	X	X
Cent.Afr. Rep.	Feb-09	-4.3	-4.3	-4.3	-4.3		4.6	5	2.5	2.5	X	X
The Gambia	Mar-09	5.3	5.2	5.5	5.5	↑	6.8	6	5	4.5	X	X
Grenada	Mar-09	11.3	10			↓	6.1	3.2			X	X
Haiti	Mar-09	4.3	4.9			↑	19.8	9.5				
Liberia	Jan-09	8.5	10.2	9.7	9.4	↑	14	5	5	5	X	X
Mali	Dec-08	5.1	5.3	5.1		s	9.2	2.5	1.9		X	X
Moldova	Oct-08	8.8	8.7	8.6		↓	11.5	9.5	7			X
Niger	Feb-09	3.7	3.7	3.7	3.7	s	8.5	2	2	2	X	X
Rwanda	Feb-09	3.6					22	6				X
Sao Tomé & Principe	Mar-09	8.6	8.6	8.4	8.2	↓	24.8	16	10	7		X
Sierra Leone	Jan-09	5.8	6	6.1	6.1	↑	15.6	12.7	9.4	8.9		
Togo	Oct-08	5.8	5.9	6		↑	9.1	1.9	2.5		X	X
PSI countries (latest reviews)												
Cape Verde	Jan-09	10.2	10.9	10.5	9.8	↓	6.5	4.1	2.5	2	X	X
Mozambique	Feb-09	8	8.4	8	7.8	↓	9.2	7.6	4.8	5.2		X
Tanzania	Jan-09	5	6	6	6	↑	9.3	6.8	5	5	X	X
Uganda	Mar-09	4.5	3.9	4.1	4.3	↓	12.1	7	5	5	X	X
ESF countries (requests)												
Malawi	Jan-09	5.5	5.8	5.5	5.2	↓	8.4	6.7	6.6			X
Senegal	Jan-09	6	6	6	6	s	6	2.2	2.2	2.2	X	X
		Wage bill decreasing:			**39%**	↓	**Totals**				**14**	**20**
		Wage bill increasing:			**30%**	↑	**% of all countries**				**61%**	**87%**
		Same (s):			**17%**							

Sources: Statistical tables in IMF PRGF and PSI reviews, ESF requests for each country, http://www.imf.org/external/country/index.htm

Overall balance (including grants, % of GDP, minus = deficit)					≤ 3% by 2011	Foreign reserves (months of imports)			>2.5 months	
2008	2009	2010	2011			2009	2010	2011		Country
-5.2	-3.9	-3.3	-2.8	↓	X	3.7	3.4	3.4	X	Albania
-3.5	-3.6	-3.8	-3.8	↑		7.2	6.8	6.4	X	Benin
-5.3	-4.8	-4.4	-3.9	↓		4.9	4.7	4.5	X	Burkina Faso
-3.2	-3	-2.6	-2.5	↓	X	3.4	3	3	X	**Burundi**
2.6	0.2	-0.2	0	↑		6.6	6.6	6.5	X	Cameroon
-0.1	-0.1	0.1	-0.8	↓	X	3.2	3.2	3.2	X	Cent.Afr. Rep.
-1.5	-3.2	-3	-2.6	↓	X	3.6	3.7	4	X	The Gambia
-4.2	-1.1			↓	X					Grenada
-2.8	-3.9			↑						Haiti
1.2	-12.1	367.4	0		X	0.7	0.8	0.8		Liberia
						4.9	5		X	Mali
0	-0.5	-0.5		↑	X	3.3	3.4		X	Moldova
-0.47	-4.5	-3.7	-2.7	↓	X	3.2	2.6	3	X	Niger
0.1	0.9			↑	X	4.6			X	Rwanda
16.6	7.9	-2.9	-12.6	↑		5	4	4	X	Sao Tomé & Principe
-3.2	-3.5	-3.8	-3.8	↑		4.2	4.3	4.4	X	**Sierra Leone**
-2.9	-2.6	-1.9		↓	X	2.6	2.9		X	Togo
-1.2	-5.4	-4.7	-4.2	↑		3.8	3.9	4	X	Cape Verde
-4.5	-5.4	-4.6	-4.2	↓		4.5	4.5	4.6	X	**Mozambique**
-1.6	-3.7	-3.2	-3.1	↓		3.7	3.7	3.7	X	Tanzania
-2.1	-3.5	-4	-3.9	↑		5.7	5.6	5	X	Uganda
-5.1	-2.4	-3.3		↓		2	2.3			**Malawi**
-3.3	-2.7	-4	-3.9	↑		3.7	3.4	3.4	X	**Senegal**
Deficit decreasing: 48% ↓					**10**	**Totals**			**19**	
Deficit increasing: 43% ↑					**43%**	**% of all countries**			**83%**	

Looking into more details at four countries facing a crisis in education, it is clear that IMF advice is still highly stringent in terms of macroeconomic targets.

Sierra Leone

In Sierra Leone, decades of civil war have meant that large parts of the primary school infrastructure need to be re-built, and the country faces a severe shortage of trained teachers, with currently 51 percent of the teaching force being untrained.[47]

Sierra Leone has a current PRGF agreement with the IMF, emphasizing inflation reduction (from 15.6 percent to 8.9 percent in 2011) and building up of foreign reserves. Until late 2008, the agreement included a wage bill ceiling as a condition to Sierra Leone's, but it was waived when domestic buy-in was deemed sufficient: *"The civil service reform has not yet been launched, but because progress has been made in controlling the wage bill, the conditionality on it has been removed."*[48] There is currently a slight increase projected for the wage bill (to 6.1 percent of GDP by 2011), however this is following a decrease in the past few years, the impact of which continues to be felt years later. When the country emerged from the civil war in 2002, the PRGF required the wage bill to go down from a little over 7 percent to around 6 percent of GDP.

Mozambique

In Mozambique, conditionality on the wage bill ceiling in the PRGF arrangement was lifted in June 2006 and it rose from 6.5 percent to 7.5 percent by 2007, which allowed the government to hire 9,000 more teachers, however the request from the Ministry of Education was to recruit 12,000 teachers to make modest progress towards its target of Quality Universal Primary Education by 2015.

After the completion of the PRGF, Mozambique moved on to a PSI arrangement. As the table shows, the February 2009 review projects the wage bill to increase to 8.4 percent in 2009, but to go down again to 7.8 percent by 2011. Page 26 of the review states: *"The wage bill will rise 0.4 percentage points to reach 8.4 percent of GDP and includes additional hiring of 12,000 teachers and 1,500 health workers. Under the Medium-Term Pay Policy approved in September 2008, the Government is committed to reduce the wage bill back to 8 percent of GDP and below."*[49] In the meantime, inflation is targeted to go down to around 5 percent within the next 3 years.

While in 2006 the PTR was as high as 74:1; in 2008 it has only fallen to 73:1. As a result the Ministry of Education has missed its own target of achieving a 71:1 PTR this year. At this current pace it is impossible for Mozambique to meet the 40:1 PTR set as the benchmark of good practice by the EFA Fast Track Initiative – and it is unlikely to ensure all children are in school by 2015.

Senegal

In Senegal all teachers are supposed to be trained, but the length of the training has been decreasing, going from 4 years to only 6 months. In the 1990s, following falls in enrolment rates because of a lack of teachers, a system of 'volunteers' was introduced under advice from the World Bank – meaning teachers without a professional diploma were hired to fill the gap. Today this system has been institutionalized and is now the only route to teaching, with 'volunteers' being paid about half the salary of civil servant teachers, and now making up 53 percent of all primary school teachers.[50] This trend of teacher de-professionalization has also created great public unrest, and teacher strikes have been paralyzing the primary education system for years, thus greatly affecting children's learning outcomes.

Senegal has an active PSI arrangement with the IMF, which does not involve receiving any loans, but was approved in December 2008 for an ESF loan of US$75.6 million to deal with the fuel and food crisis.[51] The main concern for the IMF in Senegal is to maintain 'prudent fiscal policies', and although a temporary rise in the fiscal deficit for 2009 is allowed, Mr. Johannes Mueller, Mission Chief for Senegal, stated on April 2nd that: "*Nonetheless, some reductions in non priority spending, especially current spending, are unavoidable*."[52] Education is considered a priority sector and should therefore be protected from cuts, but "protection" is not enough for an expanding education system where many more trained teachers are urgently needed. Also, with teacher salaries being the main item in a government's 'current spending', they can be an easy target for cuts. Education advocates should also be wary, monitoring whether the preoccupation with reducing the deficit leads to further squeezing of the teaching profession.

Burundi

Burundi, like Sierra Leone, has had to deal with a civil war which affected its education system and also has important consequences for government spending. In 2007, the government was spending 18 percent of its budget on defence, and 16 percent on education. In 2005 the government removed primary school fees, a welcomed step for accessibility, but that put pressure on the system and on teachers. The PTR went from 49:1 in 2005 to 59:1 in 2008, and primary completion rates remain low at 38 percent.[53]

While in all other countries with a PRGF arrangement wage bill ceilings have been removed as direct loan conditionalities, in Burundi it still remains as an indicative target of performance. Burundi has a comparatively high wage bill as a percentage of GDP, in parts because it is a small country, but also because of a large remaining army. While in 2008 the wage bill reached 11 percent of GDP, the objective of the latest PRGF review was to bring it down below 10 percent in the medium-term.[54]

The language used to talk about the wage bill in the PRGF reviews has noticeably changed within the past 2 years, with recent mentions of providing more space for 'pro-poor spending' and to 'protect nonwage priority spending.'[55] However the interaction between this language and the objective to bring down the wage bill shows some potential contradictions, as spending on education can both be considered pro-poor and priority, while being made up in large parts by teacher wages (in Burundi they make up to 95percent of recurrent primary education spending). The reality is wages for civil servants have gone down in real terms and they now earn on average less than US$75 a month, a fact recognised by IMF staff.[56]

3.2 Recently approved IMF "Stand-by Arrangements" – any change here?

In response to the financial crisis, between September 2008 and April 2009, the IMF has negotiated Stand-by Arrangement (SBA) loans with sixteen countries: Armenia, Belarus, Costa Rica, El Salvador, Gabon, Georgia, Honduras, Hungary, Iceland, Iraq, Latvia, Pakistan, Poland, Serbia, Seychelles and Ukraine. An analysis by the Third World Network[57] of nine of these IMF loans clearly demonstrates that the IMF continues to design its loan programs on a framework of tightening fiscal and monetary policies, and establishing rigorous inflation targeting in all nine countries.

The Managing Director of the IMF, Dominique Strauss-Kahn recently stated, "the Fund has advocated fiscal stimulus to restore global growth." However, the details from these new loans show that the Fund is not yet moving in this direction:[58]

- In Pakistan the Fund advises a reduction in the fiscal deficit from 7.4 percent of GDP to 4.2 percent and a drastic reduction of inflation from 20 percent in 2009 to 6 percent in 2010, through lowering public expenditure and other measures.
- In Hungary, the IMF has targeted fiscal deficit reductions from 3.4 percent of GDP to 2.5 percent through fiscal consolidation which involves freezing public sector wages.

- Ukraine's fiscal deficit is targeted at a zero overall balance as a binding conditionality in its loan agreement. Public savings are to be generated through freezing public wages.
- In Latvia, a ceiling on the public sector wage bill will see it go down from 1.3 percent of GDP in 2009 to 0.4 percent in 2010. In fact, the same day the G20 Summit pledged to triple the IMF's financial resource base, supposedly to help countries undertake counter-cyclical policies, the IMF suspended lending to Latvia "until it sees more progress in cutting public spending", according to a news report.59

3.3 New Instruments of the IMF – will they make a difference?

There are two other instruments that the IMF is using which might offer some hope of greater support to LICs and to education.

Flexible Credit Lines (FCL)

The Flexible Credit Line is a new instrument developed and offered by the IMF to help countries weather the financial crisis. This instrument is "free of conditionality" and intended for countries with very strong fundamentals, good policies, and track records of policy implementation. Access to the FCL is intended for crisis prevention purposes, and arrangements are to be approved for countries meeting pre-set qualification criteria[60].

In effect this means that rather than impose conditions alongside the loan, the conditions are all loaded up front and countries only get the loan if their policies are already complying with what the IMF considers to be sound macroeconomics. In technical terms this is called ex-ante conditionality in contrast to ex-post conditionality[61]. The impact is likely to be the same if not stronger as countries are forced to make changes extremely quickly in order to qualify. Countries need to have maintained low single digit inflation, low to no deficit and good levels of foreign reserves before qualifying and it is therefore extremely unlikely that many LICs will fit these ex-ante conditions.

Special Drawing Rights (SDR)

The SDR is a synthetic currency based on the value of a blended basket of the globe's leading currencies which can, upon agreement by the IMF members, be allocated to countries as a reserve asset. A LIC receiving an SDR allocation can hold it as a reserve asset, along with other currencies or gold the country may have. Use of the SDR is a "no questions asked loan" which currently bears costs of an interest rate of 0.45 percent[62] According to the IMF, the SDR is a way to increase global liquidity and the equivalent of $17.5 billion which may be allocated to LICs will help to augment countries' reserves and help them to obtain other currencies they need to complete international transactions.

In theory this could help countries that want to maintain their investment in education – or to release aid to education that has been received but is kept in the Central Bank to help prop up foreign reserves. However, $19 billion amounts to just 7.5 percent of the total funds being put into SDRs, so the LICs will benefit from this much less than middle income and high income countries. In truth the situation should be the other way as many commentators including George Soros have called for. If world leaders are serious about meeting the Millennium Development Goals, then richer countries should reallocate some or all of the SDRs to LDCs. Indeed there is a moral argument for allocating SDRs in proportion to the world's population – if the world needs to increase global liquidity then the resources should be divided equally not to those who need it least. There is the option under the recent G20 agreement that rich countries could transfer their SDRs to low income countries and we hope the next G20 meeting will specify the countries that are prepared to do this.

3.4 New Money from Gold – will this help education?

Gold sales have been on the IMF's mind since at least April 2008, when it achieved an agreement to sell 403 tons from its vault. At that time, the IMF was strapped for resources, partially due to so many middle income countries paying their debts and not renewing lending arrangements - to escape the IMF's contractionary policies. At a time when, remarkably, one single country –Turkey- accounted for almost 75 percent[63] of the IMF's portfolio, the institution was seeking new revenue streams and decided to tap its gold holdings, primarily to cover administrative expenses (e.g. salaries of HQ employees). Civil society advocates have been lobbying their national governments - some of which must ratify the gold sales- about the severe impacts IMF policies are having on social sectors in the developing world, and urging both that significant policy reforms accompany any ratification for gold sales and that significant proceeds be set aside to finance debt cancellation.

However the IMF has now changed its position. Now busy with clients seeking refuge from the financial crisis, emboldened and made flush by the G20 pledges, the IMF's public statements on gold sales appear aimed at using the proceeds for loans, not for grants or debt cancellation. Unless the legislative bodies in the countries that have power to ratify the gold sales affix policy reforms or debt cancellation as conditions to approving the sale, the possibility of gold sales significantly helping LICs will be diluted and serve to increase the debt burden these countries already carry. A one off sale of gold must be used to help achieve the MDGs and to help the poorest countries weather the economic storm that was created by the richest countries.

3.5 New Governance at the IMF – is change on the horizon?

Voting shares at the IMF Executive Board have been the subject of on-going efforts towards democratic reform of this public but eminently un-transparent, un-democratic organization. Voting shares are apportioned in relation to the quota payments countries make towards the IMF so in this game, money talks, loudly. This means that the US ends up with 16.77 percent of the voting shares, giving it effective veto power over some of the key decisions of the IMF Board, which require 85 percent agreement. Other powerful Board members include Japan with 6.02 percent, Germany with 5.88 percent, France with 4.86 percent and the UK with 4.86 percent. Reform activists frequently point out that while Sub-Saharan Africa is most heavily controlled by IMF-enforced policies, the total voting share for the whole continent is little more than 4.36 percent[64].

Despite having been given a massive new lease on life by the G20, the IMF has not yet reformed this imbalanced governance structure. It may do so, but the likelihood is that it will only be the G20 countries themselves that increase their influence, not the countries who are most dramatically affected by the IMF.

In the context of the financial crisis there are particular concerns that arise over the **"double standards"** held by the Finance Ministers of rich countries who dominate decision-making at the IMF. Whilst many are currently promoting expansionary policies to their domestic constituencies they are continuing to impose contractionary policies on poor countries. Moreover, these Finance Ministers come from the same countries whose aid programmes, run by Development Ministers, seek to promote progress towards the MDGs – progress which is being directly undermined by the contractionary macroeconomic policies promoted by the IMF. There is a real need for greater coherence!

In the run up to the G20 Summit, on March 24, the IMF employed both a press release and a conference call with civil society advocates to announce that changes to its concessionary lending are on track and that conditionality for LICs has changed[65]. **However, a careful**

look at the proposed changes clearly shows that only *structural* conditions are meant to change, not macroeconomic ones. The 'new focus on objectives rather than specific actions'[66] does not mean that there will be more flexibility on the definition of macroeconomic stability, but only on what exact steps countries need to undertake to arrive at the same place.

What the examination above suggests is that that this overhaul appears to be more cosmetic than substantive. The same macroeconomic conditions that have constrained education spending for years remain in place for LICs. Only those countries that either comply with ex-ante conditions or accept continuing ex-post conditions will receive support. Complying with these conditions means holding down public spending - and as education budgets are often the largest single area of public spending, education will suffer. This is particularly problematic as education systems in most LICs are expanding, with more children enrolling in school each year – and they need to expand even further if the internationally agreed education goals are to be reached. In the absence of more resources, expanding education provision will mean reducing education quality – just at a time when there is growing concern about the shockingly low learning outcomes in most LICs.

If the hundreds of billions of dollars going into the IMF are to be used effectively, there is an urgent need for a radical overhaul of the macroeconomic policies promoted by the IMF. These policies are, after all, part of the package known as the "Washington Consensus" – which also promoted the financial de-regulation that has been recognised as a major factor in catalyzing the present financial crisis. This discredited package needs to be questioned as a whole. The mood and tone of the G20 summit was that of an end to the Washington consensus, but currently its decisions may fuel its expansion with devastating effects across the developing world. By the time of the next G20 summit the IMF and the G20 must detail how they will avoid this.

LICs need to be able to prioritise investment in education and health – and shape their macroeconomic policies in ways which will facilitate achievement of those development goals. At present, policies are back to front: macroeconomic policies are defined first without regard to these goals – and education and health ministries have to make do with the limited funds that are available. Fundamentally it should be for national governments to set their economic policy – but with IMF conditions most are left with little room to manoeuvre.

It is thus unsurprising that many national governments, faced with constrained budgets, look to aid from rich countries as the only hope for making progress towards national development goals. But is current aid to education enough to help deal with the scale of the problem?

4. THE ROLE OF AID AND THE IMPACT OF AID PESSIMISM

Increasing predictable long-term aid for basic education and ensuring that it can be spent on the core running costs of education, including teachers, is needed now more than ever. The IMF and World Bank estimate that about 87 percent of LICs face 'high exposure' to the financial crisis and lack fiscal space to initiate stimulus packages of their own. According to UNESCO[67], almost half of these countries are already struggling to make the required progress towards meeting the EFA goals, with low rankings on the UN 'Education Development Index'. At the same time, education budgets are expected to be under pressure as lower economic growth leads to reduced revenues. So even if a country decides to increase the share of the national budget to education, in reality if GDP growth is weaker, the national budget is smaller and the real amount available for education will be less. Good quality aid will be urgently needed to make good these shortfalls and ensure that fragile progress towards EFA is protected and further progress is possible.

The prospects for an increase in aid to basic education are mixed. Basic education aid levels, having grown in the early part of the decade, appear to have stagnated at between $4 billion and $5 billion[68]. And now analysts are predicting that total aid could fall in the context of the crisis. For example, even if the EU were to meet its target of giving 0.56 percent GNI in aid by 2015, the total mobilised would now be $4.6 billion less in real terms than at the time of agreement. This makes the prospects of reaching the total external financing requirement of $16 billion per year seem increasingly remote.

Moreover, the aid that is available has not historically been oriented towards assisting countries to increase recurrent expenditures such as hiring and retaining teachers. Teacher salaries typically account for 70-90 percent of education expenditure, which must be fully budgeted for in at least a medium-term expenditure framework. Yet aid to basic education allocates a much lower percentage than this. For aid to be included towards this total, it needs to be predictable, long-term and available to the core running costs of education, typically through either general budget support or sector budget support. These aid modalities would allow governments flexibility to spend aid on the mainstream expenditure items in the education budget however most countries are not providing the type of commitment required to do this

GCE analysis[69] suggests that only 17 percent of total aid to basic education is available for teacher salaries, a paltry contribution towards this major expenditure item for governments (which is 70-90 percent of the costs as noted above). To date very few donors have actually contributed to teacher salaries and despite widespread rhetoric for action on the 18 million teacher shortage identified by UNESCO, hardly any donors have set targets for what they are going to contribute to closing the gap. If total domestic funding to education decreases due to slower economic growth as is predicted, then an arrangement to enable external funds to contribute to recurrent costs would become even more urgent.

At the same time, there is hope from some quarters. The new United States President has indicated commitment to creating a Global Fund for Education with an initial US contribution of $2 billion. Now advocates must seize this opportunity and ensure that it is delivered as part of a high-quality multi-lateral effort backing government plans. The new proposal also opens up a unique opportunity to leverage much-needed change in the international financing architecture for education. A new Global Fund for Education should ensure that predictable, long-term aid is available for the core running costs of education including teachers. Any such fund should build on EFA Fast Track Initiative and not be a parallel or competitor fund. All major donors, especially the G8, should get behind a new Global Fund for Education, meeting their fair share of the financing gap within two years.

What is the role of the IMF on aid flows?

The IMF plays an active role in advising LICs on appropriate macroeconomic policies in the face of high and volatile aid inflows - as an integral part of its Medium-Term Strategy. However, the 2007 report by the IEO criticizes the IMF for being overly pessimistic in projecting donor aid flows[70]. The report finds that the Fund had tampered with anticipated aid flows by setting low projections. Overly-conservative projections encourage countries to make less than ambitious spending plans because they anticipate less money. When the donors see these spending plans, they in turn may assume the need to increase aid is not so urgent. This overall inflexibility has undermined the scaling up of aid.

In response to this finding, the Fund issued two papers on its influence over aid inflows and its response to increased aid.[71] While accepting the need to make projections based on a longer-term view of spending plans and the full potential of resource availability (both confirmed *and* informal indications of aid), in practice the Fund's policy has not changed.[72] It maintains that overly-optimistic aid forecasts are more costly than pessimistic forecasts, primarily because any shortfalls in anticipated aid would entail fiscal adjustment. While Directors have advised the Fund to justify over- or under-projection of aid and alternative scenarios, they still insist these projections should be consistent with maintaining macroeconomic stability and ensuring debt sustainability. There is no reference made to basing projections on the achievement of internationally agreed MDGs or EFA goals - which would more accurately highlight financing gaps and incentivise donors to provide more aid.[73]

Happily, the main bilateral aid donors also have majority control over policy-making at the IMF. If their representatives could agree to align IMF macroeconomic policies with achieving EFA goals, the policy incoherence leading to unnecessarily low resourcing of education could be resolved. Countries should be given the opportunity to experiment with a range of economic indicators to create and spend a larger resource envelope in-country on vital human services like education – which is a solid basis for future growth, stability and well being. At the G20 meeting in London, leaders pledged that the Gleneagles commitments and other aid increases would be maintained. It is vital in their next meeting that the G20 works with the IMF to ensure how these commitments can be solidified into IMF aid projections. Otherwise by the time the money is distributed, developing countries will already have made significant budget cuts with consequent damage to progress on the MDGs and the economic growth of LICs.

Jenny Matthews/ ActionAid

5. CONCLUSIONS

The big winner from the G20 meeting in London in March 2009 seems to have been the IMF. It positioned itself as the agency best able to help countries weather the impact of the global financial crisis. It presented itself as flexible and open, willing to change some of the controversial conditions it imposed in the past.

The LICs and the fight against global poverty could also be big winners – but only if the G20 and the IMF make key changes to the planned implementation.

This review by GCE of what the IMF has done since the global financial crisis took hold shows that little has yet changed in practice. LICs will benefit little from the hundreds of billions of dollars announced at the G20. They may have access to some new money, but if present trends continue, that money will come with conditions attached that actively undermine investment in education. There is an urgent need to hold Dominique Strauss Kahn to his word and ensure that a fully comprehensive review of IMF macroeconomic conditions imposed on LICs leads to real change. Poor countries should be given the fiscal space necessary to sustain and expand their investment in education. Indeed, such investment should be seen as an integral part of the response to the present crisis, yielding both immediate benefits and long term economic growth. As many rich countries move towards spending their way out of the recession through investing in education, poor countries, where the need is greater, should be encouraged in the same direction.

Standing still is not enough when millions more children enroll in school every year and when the goal of getting all children into school by 2015 is drawing near.

The present crisis, whilst creating potential threats for investment in education, also presents a window of opportunity. Macroeconomic policies that have been entrenched for decades will need to be reviewed as part of the overhaul of the global financial system. Securing progress on education should itself be seen as an indicator of stability and as a sign of a sound economy which is investing in the future, as well as a way to make progress in other goals and protect the most vulnerable. At present, education spending is all too often seen by the IMF and Ministries of Finance as consumption, in part because by its nature, it is made up mostly of recurrent spending, such as on teacher salaries. This mind-set needs to change and the IMF needs to promote education as an investment and factor in the growth it creates and be proactive in advocating for strategic increases in education spending in response to the financial crisis, most notably in the trained teachers that underpin any effective education system.

The financial crisis should lead to a new dialogue in rich countries, between the Finance Ministers who are guiding the policies of the IMF and Development Ministers who are pursuing progress on the MDGs. Better policy alignment is possible such that macroeconomic policies actively facilitate progress on education and other development goals. Finance Ministers from the G8 countries in particular need to recognise these contradictions and use their influence on the IMF's Board to demand more coherent policies which will help LICs achieve the MDGs and EFA goals.

If the IMF proves reluctant to reform then Finance Ministers in LICs need to take the initiative themselves, opening themselves up to alternative macroeconomic frameworks that break with the received wisdom of recent decades – and which will enable them to invest in education and development. The IMF's dominant viewpoint can be challenged - as it has been by many middle and high income countries - who often choose to follow different economic paths to those recommended by the IMF.

Civil society actors in every LIC have a key role to play in opening up a dialogue with their Ministries of Finance about possible alternative macroeconomic policies. Discussions about the shape of the national economy should not take place behind closed doors, between the IMF and Ministries of Finance – but should be transparent and open to public scrutiny and debate. National education coalitions need to link with other civil society actors to promote such debate, building collective understanding and economic literacy. As well as arguing for a greater share of the national budget to be dedicated to education, we need to ask fundamental questions about the size of that national budget as whole.

Prashant Panjiar/OnAsia/ActionAid

6. RECOMMENDATIONS

In summary, the following recommendations, embedded above, are clear:

The IMF should:

- Honor commitments made by their Managing Director to reform and must remove the traditional package of macroeconomic conditions that it imposes on LICs.
- Ensure that a significant share of the resources pledged to it by the G20 reach LICs, where the need is greatest, and that the resources are available without conditions for strategic investments, particularly in trained teachers.

The G20 should:

- Use their next meeting to condition some of the pledged money on reform to the macroeconomic conditions used by the IMF on LICs. They have given new life to the IMF and they need to insist that the most damaging restrictions on LICs are removed.
- Confirm their levels of future aid in a specific and firm enough way to allow the IMF to factor them in to their economic forecasts.
- Reallocate a proportion of the SDRs to LICs to ensure a more equitable distribution and to ensure LICs do not cut back health and education budgets to survive the economic crisis.

Ministries of Finance in LICs should:

- Re-visit their macroeconomic frameworks, focusing first on the investments needed to achieve progress on education and other development goals, and then shaping macroeconomic policy to facilitate investment in these within a sound financial framework.
- Ensure at least 20 percent of national budgets (and 6 percent of GDP) should be spent on education. Ministers should also be mindful that in the current crisis this will be a reduced amount unless efforts are made to maintain overall spending levels.
- Ensure any stimulus packages include education to ensure there is effective resource allocation to protect the poorest as well as stimulate future growth.

Development / Aid Ministries in rich countries should:

- Open a dialogue with their Ministers of Finance to ensure coherence and consistency in policies – and they should de-link their aid from IMF macroeconomic indicators.
- Deliver on their promises of more, and more predictable, aid for education. This should include specific targets for how their ODA can address the teacher crisis and allow recipient governments to recruit more trained teachers.
- Support coordinated multilateral efforts as a reformed FTI /new Global Fund for Education for All to deliver substantial, predictable aid over the long-term to at least 2015

Ministers of Finance in rich countries should:

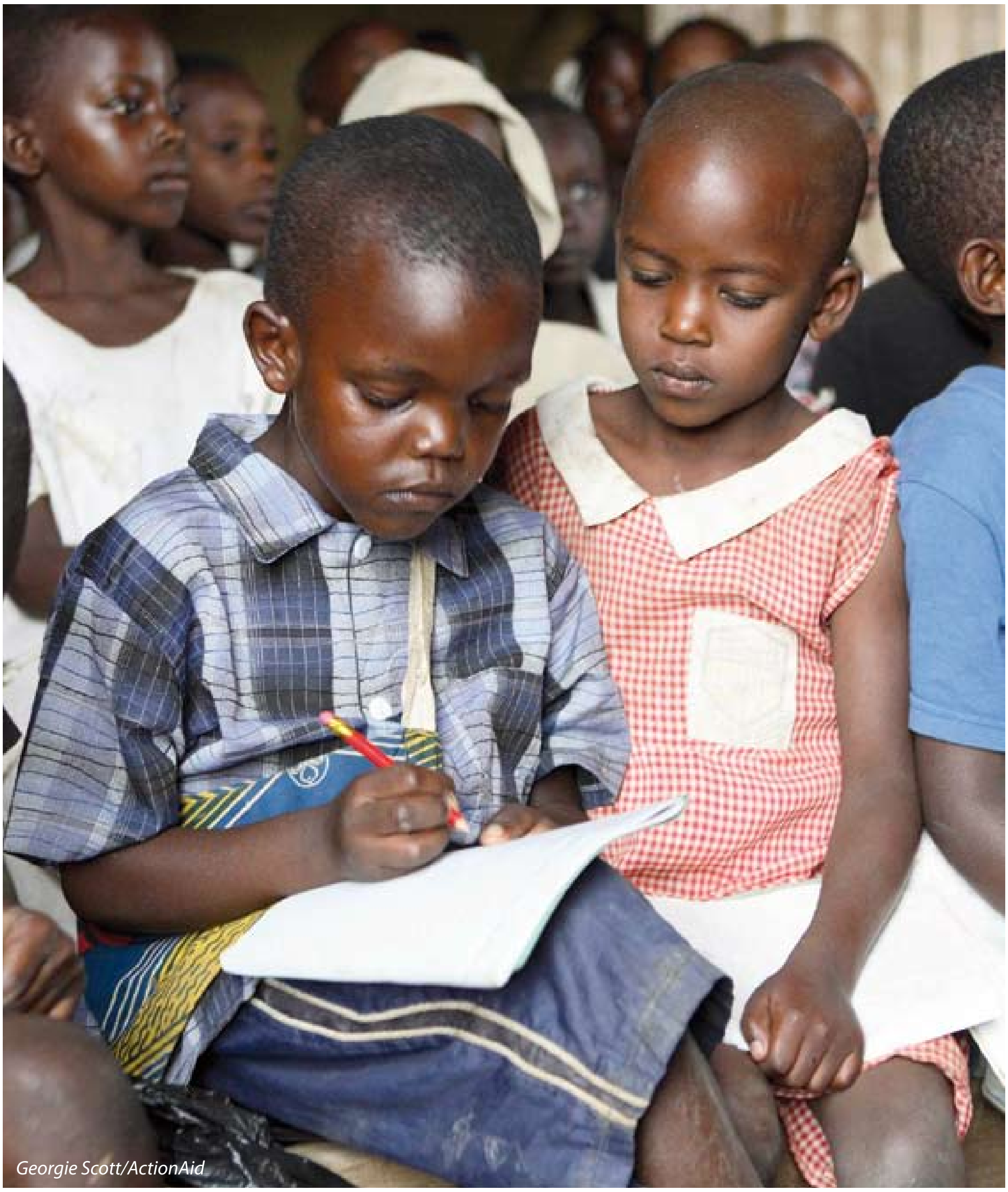
- Instruct their representatives in the IMF Board to revise macroeconomic conditions such that poor countries can pursue expansionary economic policies to get through the financial crisis.
- Coordinate with their colleagues to provide the promised increases in ODA to meet the MDGs and EFA.
- Co-ordinate with their colleagues to reallocate some of the SDR to ensure LICs can finance their own stimulus packages.

Legislative bodies in the countries that have power to ratify gold sales should:

- Attach policy reforms along with debt cancellation as conditions to approving the sale.

Civil society actors (in North and South) should:

- Build their skills to engage with Ministers –especially Finance Ministers - on all these issues and should hold their leaders to account for progress on the right to education.



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