World Vision

Promoting Growth for Poverty Reduction: The Role of IMF Lending Advice

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Promoting Growth for Poverty Reduction: The Role of IMF Lending Advice

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Introduction

The challenges facing development remain considerable despite some very real successes in the fight against poverty. The IMF's recent paper on Low Income Countries has suggested that at current rates of growth it will take 40 years for the poorest countries to reach the current median income levels of other developing states.[1] This time-frame offers a stark challenge to the task of achieving the Millennium Development Goals. It also poses the most daunting question hanging over the development sector – how can poverty be reduced more quickly without undermining the sustainability of the progress that is achieved?

The IMF's own commitment to poverty reduction was given practical form by the creation of the Poverty Reduction and Growth Facility and has been re-affirmed by its support of the MDGs. Today, however, questions must be asked as to whether PRGF linked policy advice does enough to stimulate growth, and particularly poverty reducing growth. Many Fund assisted countries, including those that have been successful in achieving monetary and fiscal stability, seem to be locked into trajectories of moderate growth, often less than 2% per year. Such rates will yield a significant impact on poverty only over several decades.

Equally the PRGF can sit uneasily alongside national strategies for poverty reduction (PRSPs). The PRGF was originally envisaged as supporting PRSP objectives, yet in reality they have frequently been negotiated in advance of the completion of the PRSP. This has led to situations of reverse causality, with the PRGF in effect setting the macroeconomic parameters for the PRSP, rather than the other way around.

For the PRGF to be effective in spurring economic growth, a new policy mix must be adopted by the Fund. A policy mix that is more adaptable than the traditional, sometimes over-zealous, pursuit of fixed doctrine . For example, recognition is needed that even the most trusted tactics of the past, such as the tight curbing of inflation, need to be used flexibly in the bigger battle being waged against poverty.

[1] IMF, The Role of the Fund in Low-Income Member Countries Over the Medium Term – Issues Paper for Discussion, PDR, July 21 2003, p. 6

A policy mix for poverty reduction will instead need to address seven critically important areas. The Fund will need to examine how its policy advice relates to each of these areas. These are:

1. The creation of momentum for growth
2. Income distribution
3. Environmental sustainability
4. Flexibility in lending advice
5. The political-economy of development
6. Human development and human capital formation
7. HIV/AIDS

Lessons must also be drawn from those countries that have experienced both sustained economic growth and also success in relation to poverty reduction. As a result this submission will draw on the experience of S.E.Asia, India and China.

1. Creation of Momentum for Growth

The PRGF must become part of the process of stimulating rapid economic growth and this necessitates a more positive view of expansionary economic policy. The balance between adequate expansionary policies and harmfully high levels of inflation is a fine one, but just as extreme inflation can cause poverty so also extreme caution on inflation can hinder the process of poverty reduction. Permitting more moderate levels of inflation in order to sustain lower interest rates, enable fiscal deficits and maintain demand can be compatible with sustainable economic growth. South Korea notably maintained inflation levels of up to 11% at key periods during its transition into a newly industrialised country.

The issue of inflation is indicative of the fact that the balance between economic expansion and monetary stability should not always err towards policies that can by default lead to contraction or stagnation. The IMF's Independent Evaluation Office recognised in an evaluation of prolonged use of IMF resources that long-term users of IMF funds tend to achieve less than projected. The IEO suggested that it is an open question whether this is a result of poor implementation or poor design.[2] In effect there is much scope to question whether the Fund's approach is currently appropriate for the achievement of growth.

The reality is that even where growth is achieved it must reach rates in excess of 8% for most poor states to see a significant medium-term impact on poverty. Such levels of growth would require policy flexibility and conscious government decision-making with respect to taking informed risks. Higher levels of growth can not be achieved

[2] IEO, Evaluation of Prolonged Use of IMF Resources, IMF, Washington 2002 pp.10-11

simply by maintaining permanently low fiscal deficits and monetary stability. Indeed the IEO evaluation of fiscal adjustment in IMF-supported countries found evidence of regular overestimation of investment by the Fund, leading to o ver-correction of the fiscal account defict and a more contractionary approach.[3]

Photo: Jerry Galea, Malawi.

A realistic approach must also be taken to both the role of foreign investment and also the historical experience of trade as a vehicle for development. In 2002 World Vision produced a major report on trade `Risky Development' which charted the empirical evidence for several aspects of traditional IFI advice on liberalisation and trade policy. Its author, Brett Parris, commented that:

> "The World Bank and IMF exert considerable pressure on developing countries, but they have little ability to exert the same pressure on rich country governments to liberalise their own markets, particularly for goods vital to developing countries such as agricultural products, textiles, clothing and footwear. This is hardly surprising since the voting weights in the World Bank and IMF depend on a country's contributions. So the richer you are, the more influence you have….. The unbalanced use of power and influence over developing but not developed countries is transparently unjust.
>
> This report [*Risky Development*] examines some central components of economic policy conditionality, including the misplaced emphasis on static notions of comparative advantage and the excessive priority that is attached to attracting foreign direct investment (FDI). While FDI can certainly be beneficial, it is not without its own costs and risks. The extensive links between trade and aid are also a major theme. Aid is no substitute for sound and equitable economic policies, but it can be a vital catalyst. Aid has a unique role to play in accelerating the process of strengthening institutions, improving infrastructure and preventing human wastage on a colossal scale by ensuring that children are well nourished, healthy and educated."[4]

The need for the IMF to do more to persuade wealthy nations to adopt more comprehensively `pro-development' policies is high. The Fund's policy advice can become counter-productive if it is undermined by the failure of OECD states to create an appropriate environment for trade or to provide the assistance needed for institution building.

[3] IEO, Fiscal Adjustment in IMF-Supported Programmes, IMF Washington, 2003 p.13
[4] Brett Parris, Risky Development: Export Concentration, Foreign Investment and Policy Conditionality, World Vision, Melbourne 2003, p1, available at:
http://www.global-poverty.org/pahome2.0.nsf/allreports/A2BFD95AC464AF4488256D970046BEB1?OpenDocument

2. Income Distribution

The impact of IMF lending advice on income distribution must be a critically important consideration in all discussions with client states. The onus should be on reaching agreements which clearly spur the achievement of more equitable distribution of income and wealth. Wealth concentrated in the hands of a few can be a factor in issues ranging from high import rates for luxury goods through to capital flight at times of political or economic uncertainty. A more equal distribution of wealth can, conversely, create higher demand for basic goods and services within the domestic economy. In South Korea and Taiwan, for example, relative income equality, within a framework of supportive economic policy, was a factor in enabling local industries to grow by producing goods for a healthy local market.[5]

World Bank publications have highlighted positive factors resulting from equity such as increased domestic savings rates and human capital formation.[6] Each of these factors is an important contributory factor to growth in its own right. If the IMF wants to see higher levels of growth then it must not side-step issues of equity by categorising them as primarily an issue for the Bank. Instead it must see policy advice as an important part of the process of achieving equity.

The reason why these issues should be prioritised is highlighted in *The Lessons of East Asia: An Overview of Country Experience*, in which the World Bank makes the point that achieving a "relative equality of income" was critical in the first generation of the newly industrialised economies of East Asia.

> "This factor was more of a change brought about by policy than an inheritance. Most other low and middle-income countries were not able to achieve similar equality of income or assets. Large land reform schemes in both Korea and Taiwan, China, did away with the landholding classes and made wage income the main source of advancement. Public housing investments in Singapore and Hong Kong were early priorities of governments bent on maintaining a national consensus on development policies.[7]"

Studies such as those by Bruno, Ravallion and Squire and work by Griffin and Ickowitz reinforce the view that achieving higher growth is helped by improving equity and helping the poor to gain productive assets (e.g. education).[8] Whereas in the past economists argued that economic growth and greater equity are incompatible, now

[5] see Roland Benabou, *Inequality and Growth* NBER Working Paper 5658, 1996 and also Oded Galor and Joseph Zeira, `Income Distribution and Macroeconomics' *Review of Economic Studies*, 60, pp35-52

[6] *The East Asian Miracle: Economic Growth and Public Policy*, The World Bank/OUP, New York, 1993 chapter one and particularly pp28-30.

[7] *The Lessons of East Asia: An Overview of Country Experience*, Danny M Leipziger and Vinod Thamas, World Bank, Washington DC, 1993

[8] *The Lessons of East Asia: An Overview of Country Experience*, Danny M Leipziger and Vinod Thamas, World Bank, Washington DC, 1993 Also *The Distribution of Wealth and the Pace of Development*, K Griffin and A Ickowitz, UNDP 1998

empirical studies actually point to a negative relationship between initial inequality and subsequent economic growth.[9] Griffith and Ickowitz actually go further in their endorsement of equity as an appropriate policy goal, suggesting that growth and equity are mutually reinforcing.[10] Policy advice attached to PRGF agreements must therefore emphasise policies that promote the equitable distribution of income.


Photo: David Ward, Bangladesh.

The key to achieving greater equity and with it better economic growth lies in the pursuit of deliberate policies addressing both issues together,[11] a factor which should be important in the preparation of a PRGF agreement. One approach to creating greater equality that has been found to work involves the redistribution of land.[12] Other steps that have proven to be effective involve equipping the poor as workers and entrepreneurs. Kanbur and Squire looking at policies that have worked have said that: "another feature underlying the success of these countries was their emphasis on human development. They invested heavily in the education and health of their populations as a contributing factor to growth but also as a benefit in its own right."[13]

Interestingly the late 1990s economic crisis in Asia affected the eight states studied in *The East Asian Miracle* in something of an inverse relationship to the degree of equality. A comparison of some of the states involved has been provided by Kamal Malhotra.[14] Equally Amiya Kumar Bagchi has pointed to the economic disequilibrium and distortions that can arise in relatively unequal economies.[15]

In considering the role of income distribution as an objective in the structuring of PRGF lending advice the IMF must remember that state policy is a critically important factor in achieving pro-poor growth. Islam and Chowdhury have done much to dispel the myth

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[9] *New Ways of Looking at Old Issues: Inequality and Growth*, Klaus Deiniger and Lyn Squire, Journal of Development Economics, Vol 57, No 2, pp259-287, 1998 ,
[10] Griffin and Ickowitz op cit
[11] An approach found to be important by Lundberg and Squire, *Growth and Inequality: Extracting the Lessons for Policymakers*, The World Bank 1999, unpublished
[12] see *Success in anti-poverty*, Michael Lipton, ILO, Geneva 1998 pp.111-118
[13] Kanbur and Squire, The Evolution of Thinking about Poverty: Exploring the Interactions, World Bank, 1999 pp. 16-17
[14] *East and Southeast Asia Revisited: Miracles, Myths and Mirages*, Kamal Malhotra, Focus Papers, Focus on the Global South, Bangkok, 1997, see pp11-15
[15] see Amiyq Kumar Bagchi, `Problems of Effective Demand and Contradictions of Planning in India' *in Economy, Society and Polity: Essays in the Political Economy of Indian Planning*, Amiya Kumar Bagchi et al, Oxford University Press, Calcutta 1998

that the labour intensive nature of export orientation in East Asia was sufficient to foster social development.[16] True, increased employment does hold the potential of enabling the poor to purchase key social development needs such as education and healthcare. But, more critical in the NICs was the role of intentional policy on the part of the state. Even in the most *laissez-faire* of the NICs, considerable state intervention has taken place to promote education, health care and in several cases public low cost housing.

3. Environmental Sustainability

While rapid economic growth can be beneficial to countries with relatively equal income distribution, growth via environmentally destructive activities can work to reduce equality and can create enclaves of wealth in a sea of poverty. In many developing countries, growth is often disguised behind environmentally unsustainable practices. For instances rapid economic growth in some parts of Indochina in the 1990's depended on higher rates of deforestation and more intensive fishery activities. The need for foreign exchange often leads governments to make explicit decisions to exploit unsustainably their natural resources.


Photo: John Schenk, Central Asia

The problem with the unsustainable depletion of natural resources is not simply a question of environmental damage, the harmful effects are also economic. For example the long-term consequences of unmanaged deforestation has been soil erosion and falling crop yields creating regular food shortages in affected areas. Unsustainable environmental practices are also linked to problems from water pollution through to the loss of potentially valuable biological assets.

A recent World Bank publication has also indicated that resource rich economies that are dependent on resource exports tend to be more prone to conflict due to competition for control.[17] The link between oil dependent countries and poverty has been researched by a number of organisations. Oxfam's 2001 report stated 'We conclude that mineral dependence is strongly linked to lower standards of living and increased poverty rates.'[18]

Given the poor track record of mineral rich countries, the IMF should actively collaborate with those groups working to improve the transparency and accountability

[16] see Iyanatul Islam and Anis Chowdhury, *Asia-Pacific Economies: A survey,* Routledge, London 1998 p120
[17] World Bank, Breaking the Conflict Trap: Civil War and Development Policy. 2003.
[18] Oxfam America, Extractive Sectors and the Poor, Washington DC, 2001

of the resources generated by mineral extraction. The need for such transparency and accountability should feature heavily in lending advice to relevant states. The IMF should also encourage all its programme countries with a dependency on mineral wealth to join the UK government sponsored Extractive Industry Transparency Initiative. Equally, the IMF should consult with organisations like the Publish What You Pay campaign to improve public accountability and help break the link between mineral wealth and corruption.

Promoting ethics in extractive industries is one aspect of the greater responsibility which rests on the IMF to take a more realistic view of the role of Foreign Direct Investment. Often, corporations are encouraged to invest in countries with generous exemptions from taxes, labour and environment laws and other regulatory regimes. In its negotiation of PRGF agreements the IMF should be aware that while investment may increase the GDP of a country, it does not necessarily lead to an increase in the general wealth of the population or in equality. In World Vision's recent report analysing the realities of trade, author Brett Parris asserts that 'FDI must be seen as just one part of an overall, domestic development strategy, focussed on building local capacities and domestic investment. Where FDI can contribute to this strategy and improve overall social welfare, it should be welcomed. But it should not be pursued to the detriment of these primary goals.'[19]

To ensure inward investment leads to greater equality and resource distribution as well as economic growth, the IMF should work to establish an international mechanism to ensure greater corporate accountability. The new UN Norms and Commentary on Transnational Corporations[20] adopted by the UN Sub-Commission on the Promotion and Protection of Human Rights and submitted to the UN Commission on Human Rights should be implemented by national governments to guide their work with multinational corporations. The IMF should use the negotiations surrounding the PRGF, and also its dialogue with industrialised states to encourage formal regulation bringing into effect the UN Norms, ensuring that the private sector is working to ensure equality of development.

By Incorporating the instruments and initiatives mentioned above, the IMF, in association with its sister agency the World Bank and also governments can help to ensure that extraction of resources is utilised responsibily.

4. Flexibility in Lending Advice

The PRGF has the potential to become an important component of accelerated growth and poverty reduction - if its negotiation includes consideration of a broad range of policy options. Broadening the policy options considered for the PRGF inevitably entails

[19] Brett Parris, Risky Business: Export Concentration, Foreign Investment and Policy Conditionality', World Vision, Melbourne, 2003 p. 53

[20] UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with regard to Human Rights.

an openness to flexibility and adaptability on the part of the Fund. Such flexibility will perhaps require a recognition that some of the more firmly held doctrines of the past have not necessarily delivered the achievements that were hoped for, particularly with regard to poverty.

Equally the Fund needs to recognise that its 1999 commitment to poverty reduction entails re-assessing some policies that may have been considered successful against other, more limited, measures. The IMF conducted a review of conditionality in 2001, yet the resulting paper avoids any detailed discussion of the dynamics of specific conditionalities in relation to poverty, particularly for the early period of structural adjustment.[21] This perhaps reflects the Fund's tendency prior to the launch of PRSPs in 1999 to rigidly demarcate poverty as an issue for the Bank, with its own remit being purely the maintenance of monetary (and by extension macroeconomic) stability.

The review tacitly made clear that the Fund's experience of conditionality entailed a relentless creep into areas of policy in which it had little expertise (including social policy) leaving it ill-prepared to mitigate unintended negative consequences.[22] This entry into the world of poverty reduction by default needs to be brought up to date by a more determined process of building lending advice that is informed by the poverty debate. A process which will mean accepting that no policies that might impact poverty can be adhered to rigidly without consideration of their social impact.

Harvard economist Gopal Garuda has pointed to one of the Fund's weaknesses in relation to the impact of conditionality on poverty. The Fund has long cherished a particular view of economic reform that was immortalised in John Williamson's notion of the `Washington Consensus.'[23] The components of this approach to reform have become embedded within the worldview of Mission Teams who travel to adjustment countries for relatively short periods to design adjustment programmes. Indeed the IMF model of the monetary approach to balance of payments was first published in 1957 and it has been suggested that this has changed relatively little since.[24] The consequence of this fixed approach to policy prescriptions is that little room exists to design policy around the unique circumstances of each context.

It is therefore perhaps not surprising that Gopal Garuda found that countries starting adjustment programmes from a relatively good economic environment may see improved or at least stable distributional impact. Those starting with severe external balance of payments can see 10-20% declines in distributional measures.[25] Although the data and sample can be debated (just as strongly as the samples used by the defenders of

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[21] IMF, *Conditionality,* Washington DC, 2001 (prepared by the Policy Development and Review Department).
[22] Ibid, see particularly sections 1 and 2.
[23] John Williamson, What Washington Means by Policy Reform, *Latin America Adjustment: how much has it happened,* Washington, Institute of International Economics, 1990
[24] Jacques J Polak, The IMF monetary model at 40, *Economic Modelling,* 15(1998) pp395-410
[25] Gopal Garuda, The Distributional Effect of IMF Programs: A Cross-Country Analysis, *World Development,* Vol28, No6, pp.1031-1051, 2000.

adjustment) Garuda's study does bear out the observations of the critics of adjustment from the mid-1980s onwards that an inflexible approach to conditionality and economic reform tended to steam roller the nuances of social context.

5. Political Economy

Although the core elements of IMF lending advice (reduced fiscal deficits, realistic exchange rates and market liberalisation) relate to what are often necessary areas for reform the agreements to achieve such changes have frequently lacked political nuance. The problem is neatly summarised by Lewis Snider:

> `One reason why efforts to implement economic adjustment programmes have such a poor track record is that the measures needed to successfully manage structural change require drastic changes in the way governments do business. Such changes usually produce a new distribution of winners and losers, thereby drastically altering the distributive politics of many Third World countries. Macroeconomic policy instruments such as foreign exchange rates, taxes, and the rate of growth of the money supply are `political instruments' used by governments to promote growth and redistribute income among social groups.'[26]

Some political scientist have seen the lending advice/conditionality induced erosion of the state;s ability to exert leverage among competing groups as ultimately responsible for growing corruption, criminality and conflict.[27] The often rapid move towards fiscal retrenchment has also led to the drift away from state employment by those best able to secure jobs elsewhere. Retrenchment was certainly a factor in the emergence of what became known as `gap-filling' the often problematical attempts of NGOs to fill the service provision role of governments.[28]

Photo: David Ward. School feeding programme in Sierra Leone.

Van der Geest and Van der Hoeven have produced studies that illustrate the impact of such retrenchment on labour institutions. Case studies from several African countries highlight the impact of retrenchment on the ability of government

[26] Lewis W Snider, *Growth, Debt and Politics: Economic Adjustment and the Political Performance of Developing Countries,* Westview Press, Boulder 1996 p.3

[27] see Jean Francois Bayart et al, *The Criminalisation of the State in Africa,* Indiana University Press 1999, also Paul Chabal and J Daloz, *Africa Works: disorder as political instrument,* James curry, Oxford 1999

[28] see Alan Whaites, Let's get civil society straight: NGOs, the state and political theory, in Deborah Eade et al *Development, NGOs and Civil Society,* Oxfam Books, Oxford 2000 also Christopher Clapham, *Africa and the International System*, Cambridge University Press, Cambridge 1996

to perform regulatory and other functions.[29]
Their study suggests that state capacity
was being eroded in areas that would later fall directly within the scope of PRSPs.

Weakened government and increasing corruption coupled to the political conditionality that emerged in the early 1990s created a context for increasing instability. Studies edited by Haggard and Kaufman found, not surprisingly, that electoral cycles and changes of government were crucial factors in willingness to press ahead with the implementation of Fund lending advice.[30] Governments found themselves ill-prepared to withstand the protests that arose from reduced food subsidies or the general economic deterioration.

Overall political crisis has been a repeated cause for the failure to follow-through on the implementation of Fund lending advice. The Fund has often seemed to suggest that such problems reflect a lack of political will rather than a consequence of advice ill-adapted to the local context.

The need for greater attention to political economy in the construction of lending advice is complemented by the need for a greater appreciation of the role of the state. State structures must be seen as a potential asset in the process of development. The state played a crucial role through intentional policy in the success of the NICs, despite problems of corruption, occasional political crisis, periods of fiscal deficit and tendencies towards industrial planning.

If the PRGF is to be effective in promoting pro-poor growth it will need to also promote through policy advice a considerable investment in the capacity of the state, now made more difficult by the corruption which previous conditionality has fuelled.

6. Human Development and human capital formation

States must also be encouraged to take on those regulatory functions that enable any government to effectively deal with social issues. Lending advice must encourage governments to deal with problems, such as child exploitation, which can themselves act as a break on growth through the failure to develop human capital.

The IMF must not avoid issues of human capital formation by labelling them as concern for the World Bank. The IEO evaluation of fiscal adjustment suggested that there is more that the Fund can do in the design of its programmes and lending advice to protect expenditure important to the most vulnerable.[31] In low income countries PRSPs provide some form of framework for identifying critically important areas of spending but at present no similar tool exists for middle income states.

[29] Willem Van der Geest and Roph Van der Hoeven, *Adjustment, Employment and Missing Institutions in Africa,* ILO and James Currey, London 1999 see pp.33-65
[30] Stephen Haggard and Robert Kaufman, *The Politics of Economic Adjustment,* Princeton University Press, Princeton 1992 pp.28-32 and also chapter 7
[31] IEO, Fiscal Adjustment in IMF-Supported Countries, op cit pp.16-17

One way in which the Fund can re-emphasise its commitment to pro-poor development is to point to the harmful consequences of exploitative practices. The OECD's Labour Standards Study examined whether low labour standards had a positive or negative impact on the competitiveness of developing countries. These low standards included: child labour, forced labour, lack of freedom of association and restricted rights to organise and bargain collectively. According to the OECD:

> "The study found no evidence that low-standards countries had a better global export performance than other countries; there was not a correlation at the aggregate level between real wage growth and observance of freedom of association rights; there was some positive association between sustained trade reforms and improvements in core standards; finally FDI data suggest core labour standards are not important in most OECD investor decisions. The general conclusion therefore is that a) adoption of core standards would not hurt developing countries' economic performance or competitive position (indeed, higher standards might be helpful in the longer term); and b) the failure to observe such standards does not appear to constitute an important competitive advantage."[32]

If growth is to do more good than harm and in the process achieve sustainability then the externalities involved must be addressed. The need for effective state action and an adequate legal framework that can help redress abuses and ensure human capital formation is vital. Indeed the ILO has developed labour standards which offer safeguards for workers without legitimising back door protectionism on the part of states in the north. The seven conventions involved are, however, rarely implemented in full and lack the accompanying positive international incentives that might aid their cause.[33]

Photo: Lily Venkatarangam,. Estimates of the numbers of child labourers exceed 250 million.

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[32] *From OECD: Towards a New Global Age, 1997*

[33] see Kimberly Ann Elliott, *International Labour Standards and Trade: What should be done?* in The Institute for International Economics, Special Report 12, *Launching New Global Trade Talks,* September 1998

Despite this need for labour regulation the presence of a weak state remains an obstacle for countries with endemic corruption or fragile political contexts. The state is also not simply needed to ensure growth is beneficial to all through social provision, labour regulation and income distribution policies. It is inevitably the state which must take centre stage in addressing the wider externalities associated with growth

7. HIV/AIDS

In many states the quest for poverty reducing economic growth will continue to be de-railed by the ongoing effects of HIV/AIDS. In 2003 World Vision produced a report on aspects of the economic impact of AIDS. `*False Economies*' highlighted the fact that unless priority is given to areas such as investment in the care of Orphans and other Vulnerable Children (OVC) the economic cost of AIDS will continue long after infection rates have peaked.

In a chapter specifically addressing the effects of IMF conditionality on national level battles against AIDS James Munthali states that:

> `attempts to establish a link between the HIV/AIDS pandemic and economic performance have been lacking, sparse or oftentimes entirely overlooked in annual surveillance reviews conducted by the International Monetary Fund (IMF).'

Munthali goes on to state that:

> At the macro-economic level, the IMF in particular needs to raise the profile of the HIV/AIDS problem and undertake an in-depth analysis of its impact on the economy. At the same time, the IMF needs to allow greater flexibility in the application of its conditionality, including the reinforcement of the recent increases in HIV/AIDS and pro-poor expenditures.[34]

World Vision's conclusion from the research undertaken for the `*False Economies*' report is that a new category of `AIDS Affected Countries' (AAC) should be created internationally.[35] AIDS Affected Countries should automatically be prioritised for the following :

Cash budget flexibility: Countries in this category should be allowed to expand their budget deficits beyond the current 1.5% of GDP preferred by international financial institutions, at least over the medium-term. Budget deficits should be allowed to go to up to 3% of GDP, as long as the increased expenditure is directed towards health and social spending associated with combating HIV/AIDS.

[34] James Munthali in K Currah and A Whaites, False Economies: Why AIDS-Affected Countries are a Special Case for Action, World Vision 2003, p31 and p.40

[35] For a copy of the report see: http: //www.global-poverty.org/pahome2.0.nsf/allArticles/EBE94E4F53BB7B0E88256D9C001931BB?OpenDocument

Realism in Economic Reforms: Countries mobilising their resources to combat HIV/AIDS must be allowed to focus on a limited number of conditionalities. LICUS countries are allowed a highly focused reform agenda that "would consist of two or three reforms that are important in economic terms and likely to result in a rapid and substantial payoff, but that are also feasible in socio-political terms, tending to unite a broad coalition for reform."[36] These countries cannot take on the fight against the disease while coping with a wide array of conditionalities. Instead, for AACs, conditionalities should be limited to government capacity-building and improved efficiency in health and social policies.

Trade Access: Like LDCs, AACs should have the "everything but arms" tariff-free entry of their goods into European Union markets and similar concessions should be made by other developed states. Continuing market restrictions on countries battling against HIV/AIDS hampers government effectiveness in battling the disease and adds to the burden of small producers.

Constructive Approaches to Trade-Related Aspects of Intellectual Property Rights: Working in conjunction with the World Trade Organisation, AACs should be allowed access to drugs for HIV/AIDS and related diseases as a matter of urgency. Whether or not the AAC has a generic pharmaceutical industry, it should be allowed to import the cheapest and most effective drugs available.

Funding: Finally, AACs should be prioritised for increased overseas development assistance. If increased government expenditures in AIDS-affected countries are to be sustainable, without continuing budget deficits that will become unmanageable in the medium/long-term, substantial growth in international AIDS funding must occur. Aid should be co-ordinated by donor countries, and it should be focused on the areas most important to combating the disease and the consequences of the disease.

Photo: Philip Maher. Voi Area Development Project in Kenya cares for community children who include AIDS orphans.

[36] *World Bank Group in Low-Income Countries under Stress: A Taskforce Report*. (World Bank, September 2002), v.

Conclusion

The Fund has a significant role to play in helping developing countries achieve the Millennium Development Goals through its advice, surveillance reports and lending instruments. This role can only be fulfilled, however, if the Fund shows determination in pursuing higher levels of sustainable poverty reducing growth. The Fund must be willing to take some risks with previously sacred areas of doctrine (such as inflation) in order to create the momentum necessary for poverty to be impacted. The Fund must also fully awake to the long-term implications of problems such as HIV/AIDS.

Most importantly the Fund must be willing to show flexibility in its approach to development. The inclusion of poverty reduction as an explicit objective of the IMF must entail a new way of working that includes a willingness to vary policy and to offer more policy-options in order to assist client states achieve growth.

The importance of government institutions in achieving economically beneficial levels of equity, social accountability and political empowerment must also be recognised through a greater affirmation of the role of the state. The IMF must accept that a failure to appreciate the political-economy of growth can be as damaging as the failure to create a suitable macroeconomic environment.

World Vision is a Christian relief and development partnership that serves more than 85 million people in over 95 countries. World Vision seeks to follow Christ's example by working with the poor and oppressed in the pursuit of justice and human transformation.

Children are often most vulnerable to the effects of poverty. World Vision works with each partner community to ensure that children are able to enjoy improved nutrition, health and education. Where children live in especially difficult circumstances, surviving on the streets, suffering in exploitative labour, or exposed to the abuse and trauma of conflict, World Vision works to restore hope and to bring justice.

World Vision recognises that poverty is not inevitable. Our Mission Statement calls us to challenge those unjust structures that constrain the poor in a world of false priorities, gross inequalities and distorted values. World Vision desires that all people be able to reach their God-given potential, and thus works for a world that no longer tolerate poverty.

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