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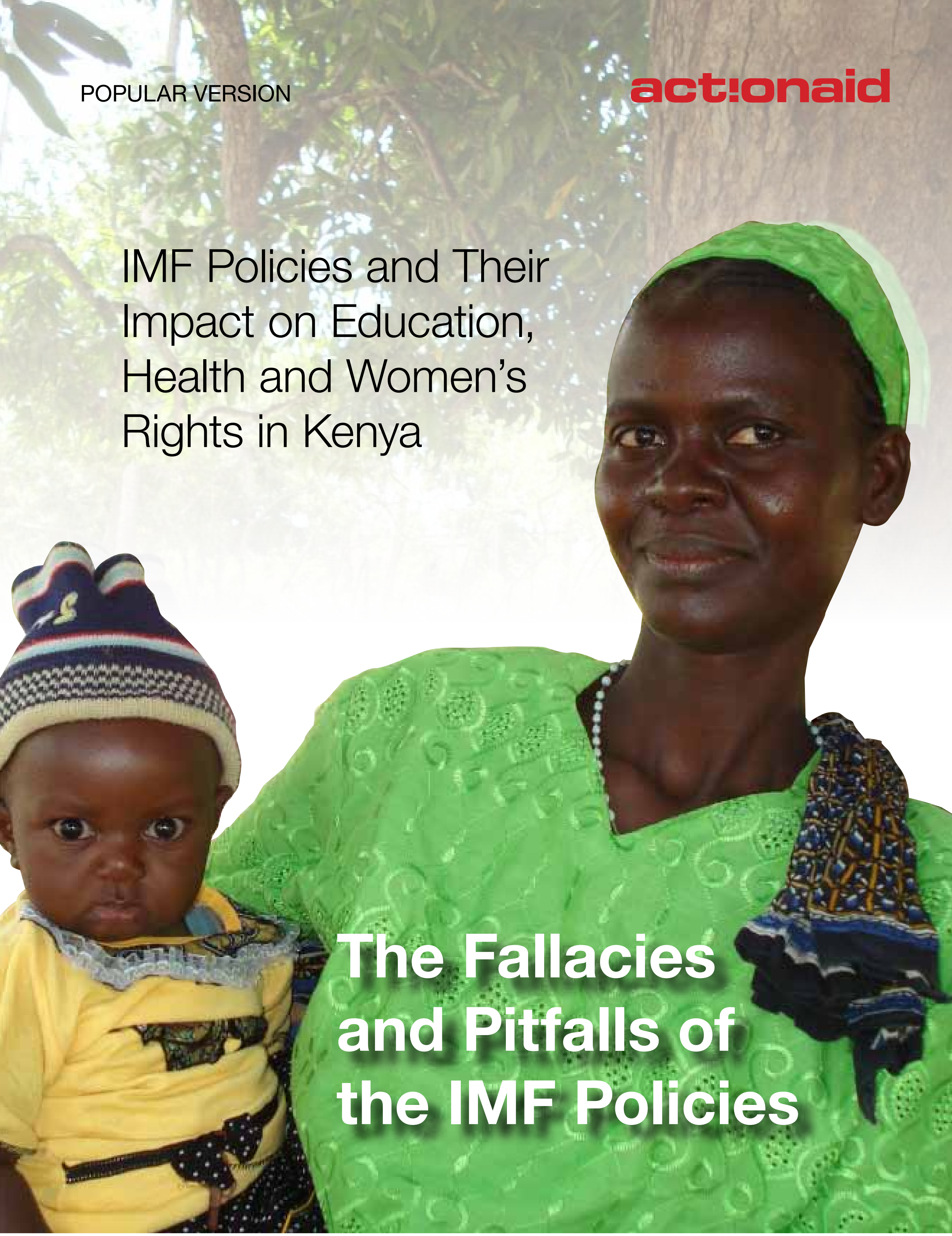

IMF Policies and Their Impact on Education, Health and Women's Rights in Kenya

The Fallacies and Pitfalls of the IMF Policies

ACTIONAID INTERNATIONAL KENYA

IMF Policies and Their Impact on Education, Health and Women's Rights in Kenya

'The Fallacies and Pitfalls of the IMF Policies'

Popular Version

ActionAid International Kenya

October 2009

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LIST OF ACRONYMS

CSOs	-	Civil Society Organisations
FPE	-	Free Primary Education
IBRD	-	International Bank for Reconstruction and Development
IMF	-	International Monetary Fund
PRSPs	-	Poverty Reduction Strategy Papers
SAP	-	Structural Adjustment Program
SDR	-	Special Drawing Rights
TA	-	Technical Assistance

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Finally, ActionAid International Kenya pays tribute to ActionAid USA for their support and collaboration and Wellspring for funding this project.

FOREWARD

ActionAid International Kenya (AAIK) in partnership with ActionAid USA implements a program dubbed 'The IMF Project' whose main objective is to audit IMF policies and advocate for reforms that will influence the Kenya government to adopt policies that are in conformity with national aspirations and international commitments related to fighting poverty, diseases and Illiteracy. In this regard, it has focused on the IMF to ensure that the loans it advances the Kenya government do not come with conditionalities that will impede the government's ability to meet the developmental aspirations of its people.

Part of the activities undertaken under the IMF Project is production of evidence to inform advocacy which is aimed at enhancing accountability and transparency in the dealings between the Kenya government and the IMF. This report, a popular version of the resource manual developed by AAIK in 2008 titled 'The Impact of IMF Policies on Education, Health and Women's Rights in Kenya,' is part of efforts at generating evidence to show the adverse effects of IMF policies on Kenya's development. It falls within the general AAIK objective of documenting and disseminating information related to the effects of IMF policies and their specific impacts on Education, Health and Women's Rights.

It is expected that this report will be useful to the community resource persons as well as general readers in terms of informing them on the impacts and effects of IMF conditionalities on Kenya's development. We hope that the popular version will spur debate across the country in regards to IMF policies as well as generate interest in advocacy aimed at interrogating IMF dealings with the government of Kenya with the purpose of ensuring the participation of the Kenyan people.

Jean N. Kamau,
Country Director,
ActionAid International Kenya,
Nairobi.
November 2009.

1.0 BACKGROUND INFORMATION

What is the International Monetary Fund (IMF)?

The International Monetary Fund (Fund) is said to be the "lender of last resort" for governments, implying that it is the lender who funds on short notice when all else has failed. The fund is the lending institution which provides liquidity in the event of crisis.

The Fund also serves as a gate keeper to official loans and has far more power than the funds it provides directly would suggest. Hence, besides being the lender of last resort, the Fund has acquired another role of "signalling". The Fund is said to have a signalling effect as other lenders will not be willing to fund any entity before the Fund confirms that it's worth funding.

Once the IMF approves a program for a country, it gives a signal that other private banks and donors can safely do so. The IMF acts as a leader in donor funding even though the amount of funding it provides is relatively small.

These two roles were not part of the original mandate of the Fund, but were rather added on as the IMF shifted its focus from industrialized to developing countries.

When was the IMF formed?

In 1944, as World War II was winding down, 730 delegates from forty four (44) allied nations converged in Bretton Woods, New Hampshire, United States to discuss the world economy.

The objective of the meeting was twofold, firstly the leaders were concerned that the world would not go through the depression it had experienced in the 1930s, and secondly, they were interested in agreeing on the modalities of how to rebuild the economies of the many countries devastated by the war.

The consequence of the conference was the establishment of the International Monetary Fund and its sister institution, the International Bank for Reconstruction and Development (IBRD), which later came to be known as the World Bank. Together the two are sometimes referred to as the Bretton Woods Institutions.

Many of the developing and least developed countries we know today did not exist as independent nations in 1944. Becoming a member of the Bretton Woods Institutions became a standard step for newly-independent countries. The Soviet Union and its allies, however, often tried to ignore the institutions, and only became active members after the demise of the Union of Soviet Socialist Republics (USSR). Currently the IMF has 186 members.

Why was IMF formed?

Article I of the Fund's Articles of Agreement captures the vision and mandate of the Fund as follows:

(i) To promote international monetary cooperation through a permanent institution that provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade,

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members. The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

But what was the IMF's original role?

The IMF was not designed to be a development institution. The Fund's main role was to manage the fixed exchange rate system and to lend to countries that had balance of payments problems (i.e. when a country's exports are not enough to pay for all its imports).

Fixed Exchange Rate System: The Fund's main role from its establishment in 1944 up to 1971 was the management of a fixed exchange rate system that had US dollar pegged to gold and other countries of the world pegging their currencies either directly to the US dollar or to the value of gold, as expressed a constant number of dollars (one ounce of gold was worth $35). This system ensured that countries were to make their currencies convertible to the US dollar.

What is Fixed Exchange Rate or Par Value System?

Each state was to ensure that its currency did not fluctuate in value by more than 1 percent (later changed to 2.5 percent) above the par value. In monitoring the par value, IMF conducted regular consultations with members to ensure that hey adhered to the balance of payment and exchange rate requirements. The purpose of the consultation was to determine the country's ability to maintain its par value standard. The consultations would be limited to issues of macroeconomic policy that directly affected the external value of the country's currency.

Balance of Payments: The Fund made available funds to countries that had balance of payment problems through revolving loans.

Balance of Payments

This is the accounting of a country's economic transactions with foreign countries in a stated period of time, normally one year. A balance of payments surplus means a nation is earning more funds from trade and investments coming in than it pays out to other countries, usually resulting in an appreciation in the value of its national currency versus currencies of other nations. A deficit in the balance of payments has the opposite effect: an excess of imports over exports, a dependence on foreign investors, and an overvalued currency. Countries experiencing a payments deficit must make up the difference by exporting gold or hard currency reserves, such as the U.S. dollar, that are accepted currencies for settlement of international debts.

The fund fulfilled its mandate **with few or no conditions**, however, this changed in the late 1970s when the Fund began shifting its focus to developing countries. Prior to this, the Fund had relatively little interaction with the developing countries.

What change led to the IMF's metamorphosis?

The par value system collapsed in 1971 and was replaced by a market-oriented exchange rate system which allows currency fluctuation. Floating exchange rates allow a country to correct balance of payments problems by making adjustments either in the value of its currency or in the domestic economy. The end of par value system was a turning point for the IMF because its core mandate had come to an end.

Oil Crisis to Debt Crisis – Opportunity for IMF to Reinvent Itself!

The rapid increase in oil prices in the early 1970s led to oil-producing countries receiving huge revenues from oil exports. This also led to oil-importing countries (largely developing countries) undergoing a crisis due to the high prices. This led to the IMF establishing an **Oil Import Facility in 1974,** to finance increased oil import costs for developing countries, just as it was looking for a new role after the termination of the Bretton Woods fixed-exchange rate system. Prior to the oil crisis, the main clients of the IMF were developed countries.

The oil-exporting countries were investing their high revenues in American and European banks, which in turn sought opportunities to invest their new surpluses by making new loans to struggling developing countries. This phenomenon opened the door further to the IMF's transition, as it was now asked to address the consequences of the irresponsible lending by banks, and irresponsible borrowing by the developing countries, which led to debt un-sustainability (sovereign debts were unsustainable), also referred to as the debt crisis.

Debt un-sustainability

Unsustainable debt refers to a country's inability to service or make payments on external debt without decimating/ruining its economy. By 1982, Mexico had announced that it would stop servicing its debt, Argentina overhauled its exchange rate and Brazil was facing a problem of currency devaluation. Private lenders panicked and withdrew credit from many developing countries.

What was IMF's new found role/identity?

In 1978, the Fund amended its constitution to change its role. Three additional roles were further vested on the Fund and they were i) surveillance ii) technical assistance, and iii) financial assistance.

Surveillance role: Previously under the provisions of Article IV, the IMF was constrained to "respect the domestic and social and political policies of the members" during its consultation visits. The Fund was limited to handling macro-economic issues such as money supply, inflation, budget deficit and debts that were relevant to achieving sustainable balance of payment. However, after 1978, the Fund widened the areas of consultation or surveillance beyond the narrow focus of exchange rate and balance of payment to include issues involving good governance, legal reforms and financial reforms; in contradiction to the previous non-interference policy under Article IV. In other words, the IMF expanded its space beyond macro-economics to broader economics, policy and governance issues.

Technical assistance: the Fund took upon itself the role of building the capacity of government and Central Bank officials from member countries. This mandate has given the Fund the opportunity to spread its neo-liberal policies especially by influencing the hiring of like-minded economists in key positions in Central Banks and the Ministries of Finance.

Provision of financial assistance: the Fund's provision of financial assistance to countries experiencing economic crisis became significant following the oil crisis of the 1970s. The IMF gets its funds from its member' subscriptions, sometimes supplementing this by borrowing money from developed countries. The Fund provides credits or arranges loans for nations experiencing such problems as severe balance of payments deficits or a sudden devaluation of their currency. This mandate implies that the Fund graduated from the manager of exchange rates to a lending institution.

What are conditionalities?

In the early 1980s, under the influence of the new conservative governments of the United Kingdom and the United States, the IMF decided that macro-economic policy conditions would accompany any lending program to developing countries. In low-income countries, these became known as "structural adjustment programs" (SAPs), while in middle-income countries they were made part of "bailout" packages. The then IMF Managing Director, implored the private banks to lend to developing countries on conditions that such countries adopt appropriate adjustment programs to avoid a situation where the countries would evade the IMF conditionalities by using banks as an alternative.

What are Structural Adjustment Programs (SAPs)?

These are fiscal, monetary and structural policy changes (programs) promoted by the IMF and World Bank in developing countries. These policy changes would form conditions upon which any developing country would get a loan. The programs were initiated in the early 1980s. The SAPs were "free market" programs which required governments to loosen regulations to facilitate foreign investments; emphasised export production as opposed to production for local consumption; abolition of food and agricultural subsidies to reduce government expenditure; devaluation of currency; reduction in social sectors spending; liberalisation of trade, amongst others. Countries which failed to enact these programs saw their access to international capital cut off. These threats to poor countries amounted to blackmail; that poor nations have no choice but to comply.

Due to the debt crisis, the commercial banks were no longer willing to lend to the heavily indebted countries. This gave the Fund almost the exclusive role of lending to such countries and thus asserting its conditions.

IMF a mouthpiece and promoter of US policies!

In the 1980s, it became clear that the United States was using the Fund as a tool for promoting its foreign policy. A historic event illustrating this fact is a speech delivered by the US Secretary of State, James Baker on October 8, 1985. The speech was titled "Program for Sustained Growth," otherwise referred to as the Baker Plan. According to Baker, developing countries could only achieve growth by adopting market-oriented policies.

Bakers Speech Outline of the Three Things that US would like to see:

1. Increased reliance on the private sector, with a reduction in role of governments in the economy, to help increase employment, production and efficiency;
2. More supply-side actions to mobilize domestic savings and facilitate efficient investment, by means of tax reform, labour market reform and the development of financial markets; and
3. Greater emphasis on market-opening measures to encourage foreign direct investment and capital inflows, as well as to liberalize trade.

The structural adjustment programs were therefore developed to advance these policy prescriptions. The IMF and World Bank promoted the conditions set by Baker's speech.

This in essence implied that they promoted the same policies in all the developing countries without regard of the context and were hence accused of applying "one size fits all" policies. The conditions outlined by Baker formed what was later dubbed the "Washington Consensus." The term was coined by Economist John Williamson in reference to a set of ten specific economic policy prescriptions that he identified as the "standard" reform package promoted for economic crisis-wracked developing countries by the IMF, World Bank, and the US Treasury Department.

Washington Consensus

1. Fiscal discipline
2. A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure
3. Tax reform (to lower marginal rates and broaden the tax base)
4. Interest rate liberalization
5. A competitive exchange rate
6. Trade liberalization
7. Liberalization of inflows of foreign direct investment
8. Privatization
9. Deregulation (to abolish trade barriers to entry and exit)
10. Secure Property Rights

Any Success with the Poverty Reduction Strategy Programs?

In 1999 SAPs underwent another transition with the introduction of joint IMF-World Bank Poverty Reduction Strategy Papers (PRSPs). The PRSPs, and the name-change of the IMF's Enhanced Structural Adjustment Facility to Poverty Reduction and Growth Facility, were clearly instituted in response to the widespread criticism of both SAPs and the lending agencies' lack of transparency. PRSPs required that countries consult with civil society in designing economic programs, but because these programs still required IMF approval, the final product changed very little. The International Financial Institutions (IFI) have failed to demonstrate much flexibility on alternative economic policies. An additional problem is that the PRSPs process retains a key role for the IMF in structural adjustment, despite the fact that the IMF is not a development agency and was created to lend only for short-term external imbalances.

2.0 FALLACIES AND PITFALLS

This section compiles selected fallacies that are perpetuated by the Fund intentionally or unintentionally through its policy prescriptions. The resultant pitfalls experienced by the developing countries are then described under each fallacy.

Fallacy 1: Privatization is the only way of ensuring service provision is efficient

The free market policies promoted in the mid 1980s and 1990s (following the Baker Plan and the Washington Consensus), led to developing countries being forced to privatize public institutions, including those providing basic social services like health and educationservices . SAPs required governments to reduce spending.

Pitfalls: Massive lay off of workers, many people slipping back to poverty

There was massive retrenchment of workers from various state owned enterprises that were being privatized. There was also massive lay off of civil servants as governments were advised to reduce spending and to improve efficiency. Privatization and reduction of government spending was expected to facilitate the "crowding-in" of private sector. This however, was done without clear analysis of the context. Firstly, privatization, especially in economies where the private sector was young and not fully developed implied that the countries had to sell off their strategic industries to multinationals from the developing countries. Secondly, even in circumstances where multinationals did not take over, there was little local private sector incentive and capacity especially in rural areas. In areas where most of the poor live, including most rural areas, there was insignificant private sector activity since the "return on investment" and the bottom line would not be met in such environments.

The layoffs and commercialisation of basic services led to many poor people, particularly children and women adversely affected as well as a marked reversal of many social indicators as many spiralled back to poverty. In Kenya, people living below the poverty line increased from 46% in 1992 to 49% in 1997, and dropped further to 56% in 2000.

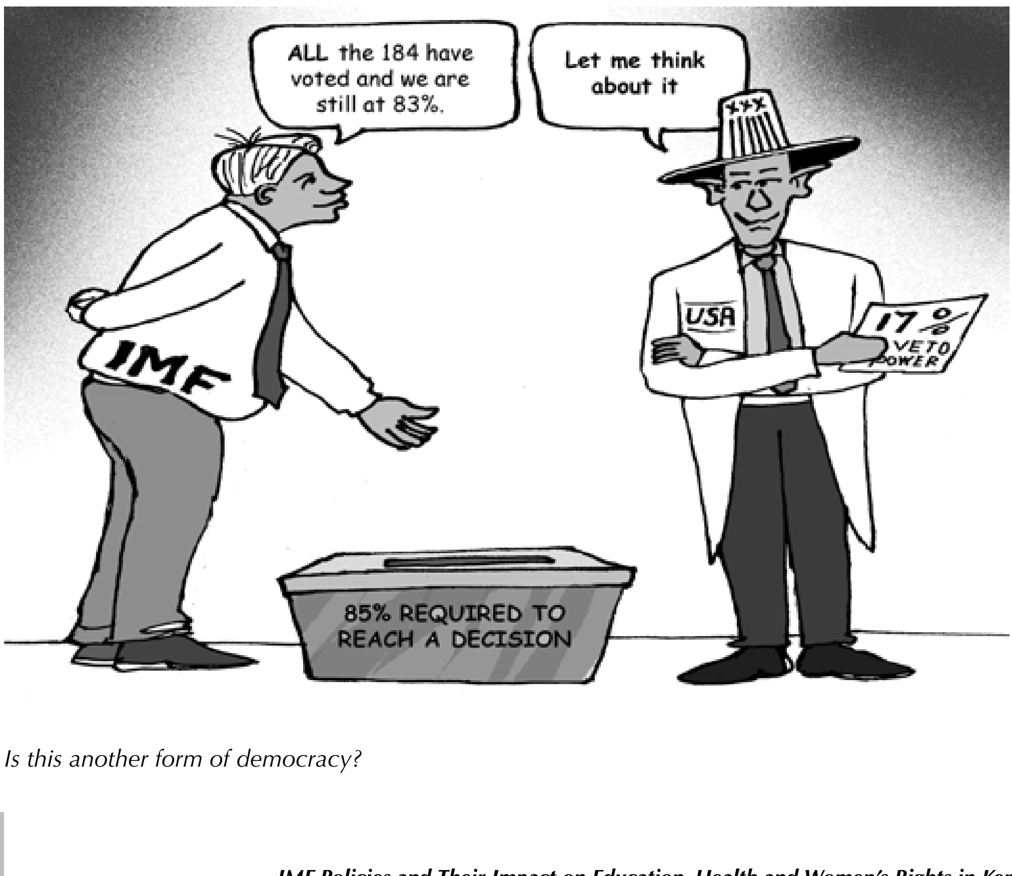
Fallacy 2: Promoter of Democracy and Good Governance

The governance structure of the IMF is dominated by the rich nations. The Board of Directors, which is the major decision making body of the IMF is composed of 24 Executive Directors and five (about 25 percent) out of the 24 are appointed by the largest quota holders. Decision-making power of the IMF is determined by the economic power of country members indicated by the level of contributions to the Fund (indicated in quotas). The European countries hold 31.4 percent of the voting rights and United State holds 17.1 percent. To make a major policy decision, 85 percent of the total votes is needed; this implies that the US has veto power (since without the US voting, all the other countries combined can only accumulate 83 percent votes, which is less than the required 85 percent). Sub-Saharan Africa has less than 5 percent of the voting rights.

Pitfalls: Blind Guides

The IMF has been calling for transparent governance and rule of law; however, the Fund is unable to practice transparency as its consultation with governments is usually shrouded in secrecy. Loans are signed on binding terms that are not known by citizens who ultimately service them. The Fund ignores the role of other institutions especially the parliament and civil society.

There are no mechanisms for holding IMF accountable for its actions. The IMF is clouded by a fog of secrecy that makes it impossible for citizens to access information necessary for engaging governments on various policies adopted as a result of IMF conditionalities.



Is this another form of democracy?

Fallacy 3: Promoter of Reforms, Transparency and Accountability

In 1997, the Fund adopted governance guidelines indicating that its conditionalities would cover issues of fiscal and public sector reforms, legal and judicial reforms, accountability in public management, banking and financial sector reforms and informational reforms as a means of "maintaining its macroeconomic policies."

Pitfalls: Secrecy and Arm Twisting

The policy space of developing countries was constricted as IMF increased its policy, economic and governance conditionalities. The IMF pervaded all the sectors of the country and the policy spaces were constricted to levels where the national sovereignty was in question. The countries which failed to implement the conditionalities were subject to severe fiscal discipline and these threats to poor countries amounted to blackmail; that poor nations had no choice but to comply.

The IMF operates on the assumption of non disclosure; this has implied that they do not ensure that what has been agreed upon is made public, by themselves or the negotiating country. This in fact works to the IMF advantage as they are able to continue arm twisting the developing countries as most of the negotiations are done when a country is in a desperate situation.

Fallacy 4: Since the IMF funds governments and negotiates funding, it promotes spending which in turn stimulates growth

The Fund has been reported to restrict or even block spending of loans and donor aid. Due to the Fund's obsession with control of money in circulation to ensure that inflation and interest rates are stable, it has advised developing countries to increase their reserves rather than spend the additional resources that are given as aid or loan. This has implied low capital utilization and lack of stimulation by the biggest spender in the economy, the government. This clearly a contrast to the policies applied by the west especially as experienced during the recession of 2008-2009. The U.S. and many other European countries significantly increased their spending to stimulate capital flows, facilitate business and create employment. The IMF did not in any of these instances deny the developed countries from this with their popular prescription that increased circulation of moneys would lead to increased inflation and affect the interest rates. They did not even suggest that increased spending by government would "crowd out" the private sector.

Pitfalls: Prescription that is an Exact Opposite – Reduction in Government Expenditure and Increase of Reserves

The developing countries tended to follow the IMF macroeconomic prescription, and this has led to under investment by the government in human capital development as well as in creating an enabling environment for private investment as the infrastructure has remained under developed. This was experienced in Uganda when the government was offered huge donation to procure antiretroviral drugs. It was reported that the Central Bank of Uganda advised that the funds could not be spent as it would lead to increased inflation. The IMF Independent Evaluation Office report of 2007 confirmed that IMF policies block spending of donor aid by restricting the amount of money in circulation and by recommending more allocations in reserves.

Do as I Say and not as I Do!

Fallacy 5: The Fund's Technical Advice is appropriate and based on sound evidence

Appropriate Technical Assistance (TA) should not be supply driven but demand driven. The fund has to a large extent provided TA that seeks to promote its own agenda and to spread the neo-liberal policies set out in the Baker Plan and through the Washington Consensus. The TA has been mostly inappropriate and has at times led to financial crisis in countries that accepted the policies in total. Three cases which provided very good evidence of this were the Argentina, Indonesia and Mexico crises.

It is also significant that virtually none of the countries in sub-Saharan Africa improved economically during implementation of SAPs. Most countries experienced reversals in the socio-economic indicators as more people slipped back into poverty during the SAPs in the 1980s-90s.

Pitfalls: Low Growth Rates and Constrictive Policies

There is evidence that low spending leads to lower growth rates. To ensure that inflation remained in check – the most common IMF target for low-income countries is 5 percent – the developing countries constricted their spending despite overwhelming empirical evidence that increased spending stimulates growth and also that inflation of between 10 and 20 percent may allow higher growth and better outcomes for poor people.

Fallacy 6: IMF Policies led to increased growth

There was an indication of GDP growth in a number of countries undergoing the SAPs that IMF proudly referred to. However, a closer look indicated that the GDP growth of these countries was routinely limited to a few sectors, most typically raw materials extraction or goods produced with cheap labour. Because these sectors typically involve multinational corporations, much of the new revenue ends up leaving the country.

Pitfalls: Export Focused Growth that is Unsustainable

Thus, even when a SAP-driven economy grows, such growth is generally environmentally unsustainable and fails to generate significant employment or increase incomes, particularly at a rate sufficient to keep up with population growth and compensate for SAP-induced layoffs. The trickle-down effect as advanced by the promoters of these policies, has not led to reduction in poverty. On the contrary, there is increased inequality as the rich have become richer and the poor have become poorer.

3

IMF POLICIES AND THEIR EFFECTS ON HEALTH, HIV AND AIDS, EDUCATION AND WOMEN'S RIGHTS IN KENYA

Based on the SAP conditionalities, the Government of Kenya had to adhere to certain prescribed economic policies and Washington Consensus to be particular (which was initially intended for Latin American countries that were going through financial crisis).

The SAPs Conditionalities in Kenya

1. Low one-digit inflation rates
2. High IMF-determined currency reserve levels
3. Decreased public expenditure by the Government
4. Reduced Government budget deficits
5. Ceilings on overall national resource envelope: the IMF determines money supply which in turn determines how much foreign aid may be accepted by the Government of Kenya in any given period
6. Privatization of Parastatals/state owned corporations
7. Trade liberalization
8. Labour market reforms
9. Foreign investment deregulation, and
10. Focus on production of goods for export rather than domestic production.

Key IMF Fiscal and Monetary Policies promoted through SAPs

Inflation Targeting Policy	• Low single digit inflation • 10 and 20 percent are bad for economic growth • Reduging inflation below 10% will not reduce economic growth
Reduced Government Spending	• Wage ceilings/caps–freezing of employment/salary increments • Sector ceilings especially for social sectors e.g. health and education • Cost Sharing Policy – people to pay for basic services previously provided by government
Currency Reserves Policy	• Floors (lowest level) on net foreign reserves to be mantained • Higher foreign exchange reserves safeguard against panics in financial markets and sudden reversals in capital flows

Inflation-Focused Monetary Policy

In the *inflation-focused monetary policy*, other important goals such as rapid economic growth and employment creation are de-prioritised. This focus on stabilisation rather than growth/development has been promoted at the expense of achieving economic growth, employment creation and poverty reduction.

Wage Ceilings

Wage ceilings led to a recruitment freeze for several years in both the health and education sectors. There was no commensurate increase in key personnel in these two sectors despite the fact that there was increased population and hence increased demand. Secondly, the policy did factor the HIV and AIDS scourge that had led to many deaths of employees in the two sectors. At the same time the demand for greater health care for people living with HIV and AIDS required an increase in health workers. All these changes in the society were ignored while the policy makers adhered to the constrictive IMF policies.

Currency Reserve Policy

Currency reserve policy requires the country to hold reserves of foreign currency equal to the cost of two to three months of imports. In cases where the reserves are low, aid has been used to increase reserves instead of being used productively in human development in the social sectors.

Reduction of Government Spending

Reduction of government spending in social sectors led to the introduction of user fees also referred to as cost sharing. This *cost-sharing policy* in the health sector was introduced in December 1989. This was part of a comprehensive health financing strategy. However, the introduction of the policy did not guarantee improved quality of health services by the Government nor did the supply of drugs become more reliable. For the poor, user fees limited access to health care. The poor suffer from higher morbidity and mortality rates but are less likely to report illness or seek medical care due to high cost of health care and the distance to health care facilities.

In the education sector, the Kamunge Report of 1988 recommended the adoption of a cost-sharing policy for financing education in Kenya. It provided that the Government was to meet salaries of teachers and education administration as well as fund some limited school facilities while parents were to provide tuition, textbooks, activity and examination fees. The communities on the other hand were to be responsible for putting up physical structures and ensuring their maintenance. This led to a significant drop in primary school enrolment and dropout rates as the majority of the poor could not afford these charges.

In the initial stages, reduction of government spending and cost sharing were promoted by the IMF twin institution, the World Bank. A practice had emerged where the Brettonwoods Institutions reinforced each other's conditionalities, a practice known as cross conditionality.

The Major Negative Effects of IMF policies on Kenyan Health Sector

The major effects of SAPs on the Kenya health sector

1. Significant shortfall of Health Personnel
2. Brain drain or capital flight
3. Poor access and quality of health care

Shortfall of Health Personnel

The wage caps led to a situation where the government could not employ additional health personnel or even increase the salaries of those who were in employment. This led to a great shortage due to the employment freeze and high attrition rate due to poor pay.

A shortfall of up to 10,000 health personnel as at 2006!

The impact of the wage freeze has been severe. On March 6, 2006 the Assistant Minister for Health, Hon Enock Kibunguchy announced during a press conference:

> "We urgently need to hire 10,000 additional professionals in the public health sector. We have to put our foot down and employ. We can tell the International Monetary Fund and the World Bank to go to hell."

The Minister for Health, Hon Charity Ngilu, confirmed that she shared Hon Kibunguchy's views. IMF restrictions have been a major disincentive to the hiring of desperately needed health care workers in Kenya.

Soren Ambrose (2006), "Preserving disorder: IMF policies and Kenya's health care crisis"

Brain Drain

Poor remuneration is another result of wage ceilings and has led to many health personnel moving to the developed countries where the pay is more competitive.

Poor pay resulted in Brain Drain

In 2003, Hon Charity Ngilu, the Minister of Health during a meeting in Switzerland for all health ministers from Africa stated that Kenya only retains 10% of all trained medical staff. She said,

> "Out of 6000 doctors trained in Kenya, our public hospitals had only about 600. It is only when we offered to pay a little more that we were able to raise that number to 1200. That is still below the number we should be having in our hospitals. "

Nurses have also been affected by this brain drain. About 4000 nurses had left Kenya for the UK and USA by 2003.

Hon Ngilu concluded that the root cause of the brain drain in the health sector in Kenya is money. The Government of Kenya is unable to compete with attractive offers made by developing countries.

BBC News (May 2003), "Halting Africa's health brain drain"

The effects of brain drain in the health sector in Kenya can be summarized as follows:

- Decline in quality of health care;
- Increased workloads for health workers left behind;
- Adverse effects on leadership and morale;
- Public sector costs for educating and training the emigrating workers;
- Less effective and efficient use of other health infrastructure resources; and
- Shortage of trained medical personnel is complicating the fight against HIV and AIDS and other diseases.

Estimated economic loss of Brain Drain in the Health Sector

The total cost of educating a single medical doctor from primary school to university is US$ 65,997; and for every doctor who emigrates, a country loses about US$ 517,931 worth of returns from investment.

The total cost of educating one nurse from primary school to college of health sciences is US$ 43,180; and for every nurse that emigrates, a country loses about US$ 338,868 worth of returns from investment.

Kirigia, et al (2006), "The cost of health professionals' brain drain in Kenya"

It is estimated that the economic loss incurred by Kenya as a result of emigration of one doctor is about US$ 517,931 and one nurse is US$ 338,868. However, this amount does not include the greater socio-economic loss.

Poor Access and Quality of Health Services

The poor suffer the most. Government clinics, district and provincial hospitals provide poor medical treatment. Further, the reintroduction of cost sharing policy has made it difficult for the poor to access medical treatment. Generally, patients are not admitted in Government facilities unless a sizeable sum is deposited. Seriously injured people often go from hospital to hospital pleading for treatment. Many die in the process.

The high level of poverty in Kenya is the main problem for the majority of the population. IMF policies and their impacts on the Kenyan health sector have made it difficult for the poor to access quality health services.

The Major Negative Effects of IMF Policies on Kenyan Education Sector

The SAPs recommended that the Government reduces its budgetary allocation in the social sectors which included the education sector. The effects of this included but are not limited to:

1. Reduction in the enrolment rates and increased dropout rates;
2. Freezing on the employment of more teachers;
3. Poor quality of education
4. Rationalized expenditure on education by spending less on teachers' salaries resulting in poor pay for teachers;
5. Commercialization of education: dual track, private sponsored students

Reduction in Primary School Enrolment Rates and Increase in dropout rates

Introduction of Cost Sharing in the Education Sector

In 1985, the Government appointed the Presidential Working Party on Education and Manpower Training for the Next Decade and Beyond in 1985. It was chaired by Dr James Kamunge and became widely known as the Kamunge Commission.

The Commission was mainly appointed to provide a policy framework for reduced Government spending in education. Their task was to review Kenya's educational philosophy, policies and objectives and ensure they were in consonance with changing social, cultural economic and political demands of the country. They released the report in 1988.

Presidential Working Party on Education and Manpower Training for the Next Decade and Beyond, March 1988, (Chairman: James Kamunge)

The Kamunge Report recommendation of cost-sharing was eventually implemented in 1991. This led to the steady decline of pupils in enrolment in primary schools as the 1974 decree of Free Primary Education (FPE) was scrapped and parents were now required to cater for tuition and maintenance fees.

They also had to purchase text books, stationery, school uniforms, as well as contribute to constructing and maintaining school buildings. Enrolment at primary level declined from 95.4% in 1988 to 87.6% percent in 2002 as indicated in the Sessional Paper No. 1 of 2005. Massive dropout rates were also recorded during that period.

The cost-sharing policy was applied in public universities in 1991/92 academic year. In this system, students and their parents were now required to cater for tuition and maintenance fees including meals, accommodation, stationery and other personal needs. Government assistance through loans and bursaries was disbursed through the Higher Education Loans Board, established in 1995 under the Higher Education Loans Board Act, Cap 213. However, the cost-sharing policy commercialized education and made it a preserve for those who could afford it.

Shortfall of Teaching Personnel

In 2003, the Government implemented the Free Primary Education (FPE) in Kenya, reversing the cost sharing policy. The number of children who enrolled in Primary Schools rose from 5.9 million to 7.2 million pupils. In spite of this development, the Ministry of Education could not employ more teachers partly due to the employment freeze. The freeze also meant that teachers who were no longer in service either due to retirement or death were not replaced.

In a survey carried out by the Institute of Policy Analysis and Research (IPAR Policy Brief volume 9, Issue 5, 2003) eight districts were found to have ratios below 40:1. The ratios, however, vary between rural public, urban public, and private primary schools, for they are 36:1, 34:1 and 25:1, respectively. High pupil to teacher ratios adversely affects the quality of education. There was a shortfall of over 60,000 teachers to match the rising enrolment.

Poor Pay and Resultant Teachers Strike

Teachers went on several strikes demanding pay hikes through their trade union the Kenya National Union of Teachers (KNUT). In 1997, the Government negotiated a deal with the Kenya National Union of Teachers to increase salaries by 150% and 200% depending on the teacher staff category in a period of five years. The Government reneged on its agreement in 1998 saying it would grant a maximum of only 30% to teachers owing to the poor economic situation. However, teachers went on a strike which resulted in the Government conceding to their demands. This agreement however has not been finalized to date, 10 years after the agreement was made.

The Major Negative Effects of IMF Policies on Women's Rights in Kenya

Retrenchment of public servants during the SAPs affected women more negatively than it did men. This is mainly because downsizing in the public service mostly targeted low cadre employees, who were mainly women.

The IMF requirement that governments spend less on socioeconomic amenities such as health and education failed to reckon that these government expenditures are core State functions. The resultant cost-sharing policy led to reduced enrolment levels which to a large extent affected the girl-child more than the boy-child. Culturally given only one opportunity between the girl child and the boy child, parents would educate the boy child.

Women as caregivers:

Reduced expenditure on health deprives the already bereft women as women are usually assigned the role of 'family nurse'. In this capacity, they are expected to care for the sick children (often in their custody) and even their ailing husbands especially with the advent of the HIV and AIDS pandemic. Where health facilities are more expensive or unavailable, much more burden is placed on the women who are usually already disempowered in numerous other regards.

The IMF promotion of privatization and liberalization also led to increased challenges for women. The government made labour laws more flexible to attract transnational companies to their countries. Since the majority of workers in export sectors are women, cheap female labour indirectly subsidized the transnational corporations that dominate export production. A recent study found that women working at the bottom of the global supply chain in labour-intensive food, flower and garment industries experience hidden costs and precarious employment. These women are hired on repeated short-term contracts without access to the benefits of longer-term employment. Women are also forced to forego overtime pay and maternity leave, experience ill health due to poor working conditions, and tolerate intimidation and sexual harassment in order to keep their precarious jobs.

Women have greater health needs!

Women are a vulnerable group that has been severely affected by HIV and AIDS and a myriad of other health problems. Women's health issues require special attention. There is high mortality and morbidity among women associated with pregnancy, childbirth, sexually transmitted diseases and HIV and AIDS. HIV and AIDS poses' a serious health concern for women in Kenya. One thing is certain: IMF policies only worsened an already dismal situation.

Women also require support from health facilities during pregnancy and on delivery. Reduced government support to health facilities led to many being shut down and consequentlly the women suffering much more.

The women bear the brunt of poverty. The poorest of the poor are almost always women. Poor men in developing countries have even poorer wives and children. And therefore the recession, the debt crisis and structural adjustment policies placed the heaviest burden on women who earn less, own less and control less.

4

POLICY ADVOCACY ISSUES AND DEMANDS

Issue 1: Governance Reforms

Quota System

The fund does not use a voting system based on the equality of nations, as at the United Nations, but based on the equality of capital. It uses a quota system which determines:

- the voting rights of the members;
- the contribute to the fund;
- the amount of financing a member is eligible for and
- the size of Special Drawing Rights allocations.

Ultimately, all the four above indicate that the more you pay, the more say you have over decisions and resources

The current governance and quota system has continued to propagate unequal power relations and limited IMF capacity to address the current challenges particularly of the developing countries. The IMF was founded to address different challenges then but 60 years on, it has maintained the same structure while its functions have changed.

Use different formulae instead of the current Quota System!

Using the same formula to determine the limits to lending and also the voting rights has no logical foundation. The reform of the quota system should consider the following:

- National-level democracy model should be used for voting rights (votes be distributed equally, one member, one vote system)
- Ability to Pay: should determine the level of contributions (a progressive tax structure),
- The needs of member countries should determine the access to resources/loans (like a welfare system or social safety net).

Keeping the IMF quota formula as serving too many purposes complicates and makes efficient operation of the IMF inappropriate.

Demand: Dissolve or Shrink the IMF

Civil society have made various demands to address the above issue and this has ranged from governance reforms to total dissolving of the institution and in its place, a new one be established. The "Shrink it or Sink it" campaign of 2006 was one such effort. "50 Years is Enough" campaign of 1994 preceded it, but the two campaigns have not yet succeeded to achieve their objectives.

Proposals for reform have been looking at changing the governance structure to ensure that the institution is more democratic and does not promote asymmetric power relationships. In the current governance structure, the rich countries shape the policies which are only applied in the developing countries. The rich countries have an unfair advantage in the IMF.

Issue 2: Transparency and disclosure

There are three ways through which vital information from the Fund is accessed: its negotiations processes, disclosure of schedules and policy decisions and public release of documents.

Demand: Transparency in Consultation and Policy Decisions

The process of loan negotiation and signing between IMF and member country has usually been a strictly closed door affair; it has been described as "secretive, opaque and deficient from the stand point of democratic governance and accountability." In the recent past, IMF has started to consult with civil society and parliament representatives. These consultations do not involve dialogue on any policy issues or conditionalities that are in discussion between the government and the IMF; rather, they tend to be extractive processes, where the IMF mission team is interested in knowing what the non state actors' views are concerning the governance challenges or ongoing in country reform processes. Therefore the said consultations are grossly insufficient, actually, a non-starter.

The Fund should broaden its consultation beyond the Ministry of Finance (MoF) officials and include other stakeholders. The consultations should provide open information on what is on the table between MoF and the Fund. There is need for IMF to develop a mechanism through which parliaments and citizens of the countries will be involved.

Demand: Disclosure of Policy Decisions and Public Release of Documents

The IMF has progressively increased the amount of documents publicly available on their websites. However IMF documents are still withheld in many cases. The IMF withholds documents unless the member country approves them to be publicly availed. The fund is said to have "presumption of non-disclosure".

The IMF should make all important information available to the public, especially information related to amounts loaned, the intended purpose of the loan, the accountability mechanism agreed with the government, and most importantly, the conditions that the government have has promised to meet. The latter forms a key component of disclosure as this conditions which are mostly to promote the neo-liberal policies, have caused great pain and reverses in socio-economic indicators of the developing countries. A significant number of people have slid back to poverty due to retrenchment, lack of access to education and health care caused by IMF policies.

The policy of "presumption of non-disclosure" need to be reversed, there should be "presumption of disclosure"!

Demand: Disclosures of Schedules

The IMF releases the rough schedule of board discussions a few months in advance but the exact schedule of discussions is only available one week prior to the discussions. This is also the case with the country missions. This practice continues to perpetuate the secrecy and opaqueness of the consultation meetings. Transparency presupposes timely access to information on the missions. The schedules of the board meetings in Washington and the country missions should be shared in advance and in a timely manner.

Issue 3: Short-term solvency vs long term development

Policy decisions involving trade-offs between achieving short-term solvency (macroeconomic stability) and effectively addressing and achieving other long-term development goals (such as in health, HIV and AIDS, Education, infrastructure, etc) are made within closed negotiations for IMF loan programs between finance ministries and visiting IMF missions.

Demand: Policy Space to focus on Long Term Development

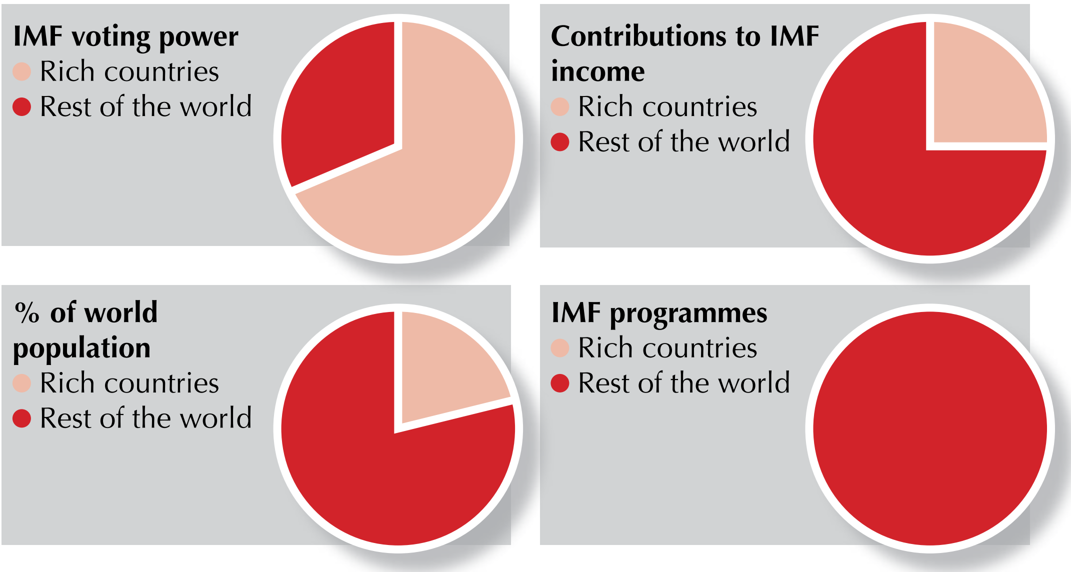
The IMF has been criticized for unduly influencing the fiscal policies of countries, especially developing countries. Equally, harsh criticism has followed the nature of the policies that have often been described as overly conservative, risk averse and based on narrow consideration in terms of economic approach.

Unfortunately, these criticisms only arise after the effects of the policies are felt. This has raised concern among advocacy groups, which have contemplated arresting the policies while they are still proposals: at the negotiation stage.

Issue 4: Negative Effects of SAPs

"The IMF has remained an institution where the bailers don't get bailed out and the bailed out don't have a say," it has been said. However, a further look into the contributions to the IMF in the 1980s to 2000 shows that the IMF largely relied on the repayments made by the developing countries. As the figure below adopted from "Out of Time" report by World Development Movement indicates, the rest of the rest of the world was contributing slightly less than a quarter into the IMF. The Fund should acknowledge its previous failures and also acknowledge that it has relied on the resources of the poor to survive during the terrible two decades.

Rich countries versus the rest of the world in the IMF



Demand: Restitution for the losses caused by SAPs

Social safety nets and good governance reforms do not compensate for the serious flaws that SAPs introduced by deregulating laws and diminishing the state's capacity to protect the welfare of its citizens. The opportunity of the current global crisis and new funding by developed countries for the IMF to support developing countries, gives the IMF an opportunity to amend its previous negative report. The IMF supplied an emergency loan of $209 million to Kenya in May 2009, but going with the challenge of transparency and disclosure, details of this package have not been made clear to the public. IMF should give more concessional or interest free loans for the next decade, to the developing countries, to compensate for the lost development opportunities in two decades during the SAPs.

Issue 5: ultra-low inflation and deficit targets

IMF has very little empirical evidence in the economics literature to justify pushing inflation down to the 5–7 per cent level, which has serious negative consequences such as lower growth, lower tax revenues and lower spending capacity. This policy prescription has been promoted by the IMF despite overwhelming empirical evidence that increased spending stimulates growth and a number of countries that have continued to do so have managed with inflation rates of 10 percent above.

Demand: Policy Space

Stimulation of growth requires increased spending especially in productive sectors such as infrastructure and agriculture. The inflation fluctuations should be managed but not at the expense of increased growth. The IMF should provide economic policy space for developing countries to make their own decisions using the local context indicators.

Issue 6: Special Drawing Rights (SDRs)

Special Drawing Rights

In the late1960s, the IMF devised a "reserve currency" to make up for shortages of both gold and US dollars, called *Special Drawing Rights* (SDRs). They were allocated to countries on the basis of their IMF quotas. They require no external backing beyond consensus of the IMF's member countries, and serve as a cost-free asset when held as reserves. They can also be converted to hard currency (dollar, yen, euro, etc) but a variable annual interest charge, based on prevailing market rates, applies.

During the 2008-09 global financial and economic crises, the IMF was asked to issue a new allocation of SDRs. SDRs had been largely forgotten, but have now emerged as a leading alternative way to safeguard countries against the effects of the crises, and possibly to provide condition-free and inexpensive resources for development.

Demand: Special Drawing Rights

The IMF should issue new general allocation of SDRs, as they are created and backed by the consensus of the IMF's member and are essentially cost-free. Based on the fact that there is need to make the member countries fairly equal, and also considering that even developing countries contributions to the IMF have been significant (even though the contribution have been based on repayments of loans), there is need to reallocate the SDRs especially to the developing countries. The reallocated SDRs should be used to augment a country's savings, and thereby increase its creditworthiness and perceived stability particularly of the developing countries. With greater reserves, developing countries will be able to borrow more and on better terms, or free up existing hard currency reserves.

The IMF should issue a new targeted allocation of SDRs to developing or low-income countries. Transfers of SDRs from rich to poor countries should also be facilitated, and costs of converting SDRs to hard currency should be subsidized or eliminated. The use of SDRs for development should be defended against objections from some rich countries.

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