Poor countries cutting back crisis response too soon - Oxfam

IMF must help keep poor countries keep up spending

Washington, DC – Poor countries are being forced to cut back on their economic crisis-response spending too soon, international agency Oxfam said today, calling on the IMF to take steps to reverse this trend.

These countries need to massively increase social spending, as the economic crisis pushes millions of people further into poverty and the Millennium Development Goals deadline approaches. Instead, budget data from 56 poor countries surveyed by Oxfam - including detailed breakdowns of social spending in just over half of these countries - shows that poor countries have had to slash education, health, agriculture and social protection spending.

- Budgets in 2010 are being cut on average by 0.2% of GDP.
- Two thirds of the countries for which social spending details are available (18 out of 24) are cutting budget allocations on one or more of the priority social sectors of education, health, agriculture and social protection.
- Education and social protection are particularly badly affected, with average spending levels in 2010 lower even than those in 2008.

Oxfam spokesperson Elizabeth Stuart said: “This crisis was created by rich world bankers, yet poor countries are having to cut vital spending to bail themselves out. This is exactly the opposite of what’s needed. The IMF must work with developing country governments to ensure they’re not forced to exit from their fiscal stimulus too soon. They need to be ramping up rather than cutting health or education budgets.”

Rich countries are failing to provide the support needed to prevent these cuts. Oxfam has found that the economic crisis has left 56 poor countries with a combined ‘fiscal hole’ (that is, a shortfall in budgetary revenue) of $65bn in 2009 and 2010. Despite promises by the G20 and donor countries to help poor nations survive the crisis, just 13 percent of this revenue gap has been filled by grants. Given this failure by the international community, poor countries were forced to resort to expensive domestic borrowing to finance spending in 2009; now they are cutting spending prematurely to avoid a new debt crisis.

This comes on the heels of the OECD’s report that development aid fell $3.5 billion in 2009, and World Bank calculations that 50,000 more children in Sub-Saharan African countries may have died last year because of the financial crisis.

“The world’s attention is on bailing out Greece to prop up European financial markets, but it should also be on helping the poorest who have been saddled with a crisis not of their own making,” said Stuart.

Oxfam also called for a change in IMF rules so that it can give grants, funded by gold sales, to finance a massive increase in poor countries’ health and education spending. At present, the IMF’s Articles of Agreement only permit it to give loans.

“The IMF and G20 also need to endorse Financial Transaction Tax which, at rates of around 0.05% per currency transaction, would raise hundreds of billions of dollars annually. Otherwise, this poor country fiscal gap risks becoming a black hole into which the education, health and future prospects of the world’s poorest will disappear,” said Stuart.

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