

To deliver for the MENA region, the IMF needs urgent reform

By Leila Oulhaj & Shereen Talaat

Over decades, the Middle East and North Africa (MENA) have suffered the consequences of a neoliberal model imposed by international financial institutions, such as the International Monetary Fund. The IMF needs urgent reform to better respond to the current crises of debt and climate in a way that meets the needs of the people of the MENA region, instead of undermining their living conditions and breaching international human rights laws.

This article argues that IMF-supported policies in the MENA region have added fuel to the fire of austerity, food insecurity and vulnerability, as well as gender inequality. It notes that the failure of IMF programmes to bring about urgently required economic transformation and development necessary for long-term economic and political stability both in the region and globally, demonstrate the need for a fairer system capable of providing dignified living conditions for all people, not just the most powerful.

The IMF has imposed a neo-liberal development model on MENA states since the 1980s, with conditionalities and structural adjustment programmes (SAPs) that have pushed most MENA countries to prioritise fiscal balances and debt repayment, leading to sharp reductions in public spending and an erosion of state capacity to guide economic policy. The result has been a persistent commodity dependence, cyclical debt crises and social instability. This has also meant the degradation of the living conditions of the people¹ - notably women - and a reduction in tax revenue, further diminishing state capacity.²

In Tunisia, the 1986 SAP weighed heavily on the most underprivileged, due to the significant rise in health and education costs, and the expansion of the informal sector, both urban and rural.³ Jordan's IMF programmes reach back to 1989. Yet, their latest 2016 loan programme still mirrors the same policy recipe, while poverty has barely improved and social security systems have been emaciated.⁴

Instead of investing in vital services such as healthcare and education, and addressing climate change, in accordance with their international human rights obligations, many countries in the region are struggling to repay loans. The war in Ukraine has worsened their finances further due to a surge in food inflation that has undermined food security and hit the poor the most. Ordinary people bear the impacts of these shortages, which are the result of global financial and trade systems built on a history of colonial extraction and financial speculation with basic necessities.

Debt and structural adjustment create a never-ending spiral undermining development

The IMF has imposed cuts in public spending, privatisation, currency devaluation, higher interest rates and trade liberalisation, alleging that these policies would lead to economic growth and stability, and thus benefit society. Yet, these measures have failed over and over to improve people's lives.⁵ In April this year, against a backdrop of high inflation, tighter financing conditions and high debt levels, the IMF recommended maintaining a fiscal policy compatible with central bank guidelines to promote price and financial stability.⁶ However, governments in the MENA region have very little fiscal space to deal with multiple crises, achieve the Sustainable Development Goals and meet their international human rights obligations due to low tax revenues, while the macro policies chosen to prioritise stability and debt repayment - rarely actual growth - in practice often widen inequality.

In Egypt, the IMF imposed a general sales tax, an increase in customs duties and in public service charges in 1991 to "clean up" public finances and reduce public spending, which led⁷ to higher prices of public services. Thirty years later, in December 2022, the IMF approved the latest \$3 billion loan, while 60 per cent of Egypt's population was still considered poor or vulnerable. The loan was meant to help Egypt achieve macroeconomic balance and debt sustainability, a goal that two previous programmes in 2016 and 2020 failed to meet. Instead of supporting debt sustainability, IMF programmes have encouraged a wave of heavy borrowing, often from undemocratic governments, raising questions about the legitimacy of the debt. During the 2016 programme, external debt increased⁸ by 20 per cent annually.

Recent negotiations between Tunisia and the IMF over a loan appear to be increasingly compromised, because the IMF is demanding a lifting of state subsidies on basic products, including fuel, which has led to social unrest in the past and likely will again.⁹

Reform priorities for greater fiscal space: Governance and surcharges

Some reforms that could be implemented easily could ameliorate this situation. One is abolishing the Fund's surcharges, additional fees imposed on indebted countries on top of the usual interest payment and service charges. Currently, 16 MENA states including Egypt, Tunisia and Jordan pay surcharges, with the number expected to increase to 30 by 2025.¹⁰ However, the IMF's annual income from these additional fees represents a negligible 0.18 per cent of its total

resources available for lending.¹¹ Eliminating this policy would give indebted countries valuable breathing room while hardly impacting the Fund's finances.

Democratising the Fund's governance in the upcoming 16th Review of Quotas is essential to give greater voice to Global South countries, and to support a more equitable distribution of Special Drawing Rights (SDRs) toward those who need them more. The Resilience and Sustainability Trust created by the Fund to redistribute the 2021 SDR allocation once again does so in the form of loans. Instead of offering the unused SDRs as non-debt creating resources, the RST has further complicated the debt problems of several low-income countries trying to address climate change.

International solidarity, a prerequisite for addressing multiple crises

IMF-supported policies in MENA have added fuel to the fire of austerity, food insecurity and vulnerability, as well as gender inequality as women are forced to pick up the slack left by a whittled-down state. The IMF should immediately halt its policies of surcharges and inequality-widening conditionalities, and take better account of aspects of national governance, such as the rule of law, corruption and human rights. The Fund's new gender strategy must be translated into tangible adjustments of its policy advice when harmful impacts are likely. The failure of IMF programmes to bring about urgently required economic transformation and development necessary for long-term economic and political stability both in the region and globally, demonstrate the need for a transfer of power from the Fund to more democratic multilateral fora such as the UN.

If we want to avoid even greater social strife, hardship and destabilisation, we urgently need a fairer system capable of providing dignified living conditions for all people, not just the most powerful. It is essential that the countries of the Global North take the concerns of the South seriously and chart this new path.

Photo: Gigi Ibrahim



Anti IMF loan protest in downtown, Cairo, 29 August 2012.

- H. A. Nassar, "Quelques conséquences sociales des programmes d'ajustement structurel", *Égypte/Monde arabe*, 12-13 (1993), 145-177; UNESCO, *Effets des programmes d'ajustement structurel sur l'éducation et la formation*, 1995.
- A. Bouzaïene, *La justice fiscale en Tunisie : un idéal piétiné par les politiques d'endettement*, Al Bawsala/PSI/Friedrich Ebert Stiftung, 2021; S. Khari, *Désengagement de l'État et désocialisation, in Tunisie: le délitement de la cité. Coercition, consentement, résistance*, Paris: Karthala, 2003, p. 75-100.
- S. Chaker, "Impacts sociaux de l'ajustement structurel: cas de la Tunisie", *Nouvelles pratiques sociales*, 10(1) (1997), 151-162.
- A. Shah, *Structural Adjustment—a Major Cause of Poverty*. Retrieved from Global Issues, 24 March 2013.
- Ibid; D. Dollar and J. Svensson, "What Explains the Success or Failure of Structural Adjustment Programmes?" *The Economic Journal* 110, no. 466 (2000), 894-917; M. Thomson, A. Kentikelenis and T. Stubb, "Structural adjustment programmes adversely affect vulnerable populations: a systematic-narrative review of their effect on child and maternal health", *Public Health Rev* 38, 13 (2017); J. Kaiser, *Interfering in national sovereignty*, retrieved from D+C, 2018; *Reuters*, "Economic growth in Middle East, Central Asia to slow amid global challenges", 3 May 2023.
- F. Caselli et al., "La politique budgétaire peut favoriser la stabilité économique et remédier aux risques qui pèsent sur les finances publiques", *IMF blog*, 12 April 2023.
- L. Blin, "Le programme de stabilisation et d'ajustement structurel de l'économie égyptienne", *Égypte/Monde arabe*, 9 (1992), 13-46.
- K. Rehbein, *The IMF programme in Egypt: Bailout for Egypt of the IMF?*, Erlangjahr, 2023.
- Le Monde Afrique*, "en Tunisie, les négociations avec le FMI sont 'complètement à l'arrêt'", 26 July 2023.
- Latindadd, *FMI mantiene su innecesaria imposición de sobrecargos a países en mayor necesidad*, 21 December 2022.
- J. P. Bohoslavsky et al., "IMF's Surcharges as a Threat to the Right to Development", *Development (Rome)*. (2022); 65(2-4), 194-202.