

# Warning: May Contain Austerity

How the international response to Covid-19 threatens a return to austerity measures that undermine women's rights

**This briefing examines the International Monetary Fund's response to the Covid-19 pandemic. At a time of enormous economic upheaval, the briefing warns of some of the dangers that this response is creating and suggests viable alternatives that could benefit women who stand to be hit the hardest.**

## Introduction

When the Covid-19 pandemic struck it triggered a major global economic crisis - projected to be the most devastating in living global memory. Yet the response of the International Financial Institutions (IFIs) has been to further entrench the notorious 'austerity measures' in the Global South, which have been proven time and time again to do more harm than good.

For anyone interested in promoting gender equality, this trend should be particularly alarming given the plentiful evidence on the harmful impact of austerity on women's rights. The pandemic has exposed the depth of existing inequalities and demonstrated our reliance on women's unpaid care work and the importance of robust public health and care services and of adequate social protection particularly for women in vulnerable jobs. Austerity risks undermining any hope of equitable recovery.

In this briefing we examine the response of the International Monetary Fund (IMF) in particular, warn of some of the dangers that this response is creating, and suggest that there are viable alternatives. Specifically, we will explore the way that four key factors are coming together to drive countries in the Global South even deeper into crises:

- The emergency loans provided by the IFIs to help them respond to the pandemic were insufficient, failing to tackle the emerging debt crisis.
  - As a result, countries in the Global South will have to make debt repayments long before there is any sign of economic recovery, just when the pandemic has increased the need for government spending and reduced tax revenue activity.
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- More and more countries will face debt crises - where they cannot pay the debts they owe and will likely be forced to turn to the IMF for long-term loan programmes conditioned on austerity measures.
- Over the last four decades, these austerity measures have failed to stimulate economic growth, while leaving women in the most marginalised communities to pay the price of crisis after crisis.

## 2. What is causing this unprecedented crisis?

Even before the pandemic, a number of countries in the Global South were already in, or on the verge of, a debt crisis and calls for action on an agreed international system for solving sovereign debt crises have remained unheard. The Covid-19 pandemic itself then caused major economic challenges for countries around the world, making the prospect of many countries defaulting on their debts far more likely.

When the pandemic hit, governments urgently needed to increase spending to meet immediate health and social protection needs in response to the virus, as women's unpaid work was stretched to its limit. Meanwhile, 'lockdowns' suppressed economic activity, further increasing the need for social protection measures to protect those who lost their livelihoods, while at the same time severely reducing the tax revenues on which governments rely.

In addition, since March 2020, countries in the Global South have been hit with simultaneous, multiple and severe economic shocks caused or exacerbated by the pandemic. A halt in the tourism - on which many countries rely, a significant drop in remittances from migrants, and falling prices for exported raw goods - which constitute a substantial portion of many developing economies, have all reduced national incomes. An unprecedented outflow of private sector investments from the Global South to the North also took place in March, combined with an increase in the cost of borrowing for Southern governments as the value of their currencies fell. This toxic combination of events has left governments in the Global South in dire need of funds.

## 2. The IFIs' response

The pandemic laid bare the existing inequalities and vulnerabilities across societies, and the centrality of public health and care services to well-being. As the pandemic began to unfold and reveal these realities, activists and academics [called for](#) fundamental changes in the way that economies are shaped and managed.

The IMF is designated to be the 'lender of last resort' for countries facing economic crises – meaning that when all else fails countries turn to it for loans. Although heavily responsible for the current global economic system, even the IMF has accepted the need to 'build back better'. Managing Director Kristalina Georgieva [wants](#) to seize the opportunity to "reshape how we live and to build a world that is greener, smarter and fairer".

In reality however, the response from the IFIs has been more 'business as usual' than 'build back better'. Four factors have come together to make their response so problematic.

### **i. Emergency financing that is insufficient and adds to debt burdens**

The IMF made emergency loans to over 80 countries in 2020, however the amounts approved are nowhere near enough - about [\\$250 billion](#) falling far short of UN [estimates](#) that developing countries need about \$2.5 trillion to respond to the crisis. For comparison, in 2018, the IMF approved a \$57 billion loan programme to just one country – [Argentina](#) – which is equivalent to almost a quarter of all the money it has made available in response to Covid-19.

Almost all of the financing made available by the IMF and World Bank to respond to Covid-19 has been in the form of loans, rather than grants, and so has to be repaid. This means that the response only adds to the debt burdens of developing countries that were already very high or unsustainable before the pandemic.

#### **Is there an alternative?**

The obvious way forward is for the IMF to issue what are called 'Special Drawing Rights' (SDRs). [Essentially](#) this is a way for the IMF to distribute an international reserve currency to its member countries without conditionality in much the same way as a central bank can increase the money supply in an individual country. So far this option has been blocked by the USA.

### **ii. Insufficient debt relief that just postpones the problem**

As of December 2020, the IMF had provided 29 countries with debt relief, some in addition to other forms of emergency relief.

In addition, in April the G20 offered some debt relief to countries in severe financial distress. Known as the Debt Service Suspension Initiative (DSSI) - it provides a suspension of debt service payments owed to G20 countries due between May 2020 and mid-2021. 73 low-income countries are eligible for this relief, but only 43 countries have signed up so far. Many countries are reluctant to do so because they [fear](#) credit ratings agencies will lower their credit ratings, making it even [harder](#) and more expensive for them to access financial markets. This is only a temporary measure, so it merely postpones debt payments to a later date.

Moreover, the debt relief provided by the IMF and G20 does not include debt owed to private creditors, to whom countries are increasingly in debt. Despite pleas from almost *all* governments, these major private financial corporations have so far refused to participate in these debt relief initiatives.

In November, the G20 agreed a new [‘common framework for debt treatments’](#) – which goes beyond the DSSI in that it is supposed to deal with restructuring and reducing unsustainable debt over the longer term. However, the framework, agreed by G20 countries without the participation of debtor countries, has already been criticised for still focusing on postponing rather than cancelling debts, it still does not include private creditors, and it explicitly forces countries that want to apply for debt relief under the framework to agree to a long-term IMF loan programme – which comes with strict economic policy conditions that centre on austerity measures.

### Is there an alternative?

[Debt campaigners](#) have called for a lasting solution with a [universally agreed debt workout mechanism](#) providing full cancellation of all past and present debts, under the auspices of the UN where all countries would have an equal say.

### iii. Binding countries to a flawed package of economic measures

As a result of the pandemic, the IMF has significantly extended its influence in the Global South. In 2019 the IMF approved loans to only 15 countries. In 2020, over 80 countries received IMF financing. This includes the emergency loans along with new loan programmes as well as extensions to existing programmes.

Most of the IMF’s Covid–19 financing was paid up front, with no formal conditions attached. However, when governments asked the IMF for these loans, they had to put in writing how they will make sure they can pay it back. Knowing full well what the IMF wanted to hear, most governments made commitments to implement austerity measures.

Moreover, many of these countries, especially in sub-Saharan Africa, already had heavy debt burdens and are unlikely to be able to repay their emergency loan to the IMF on top of their debts to other creditors. They will then be forced to return to the IMF for longer-term loan programmes, and these will then be conditional on governments implementing austerity measures. Having tried to free themselves from IMF control for decades, some countries will find themselves forced once again to implement the economic policies that have proved so problematic in the past.

### Is there an alternative?

The response to the pandemic has renewed calls for a change in the way that global economic decisions are made, reducing the dominant power of the IMF and World Bank and giving governments in the Global South more say over the way that they run their own economies. There have been [calls](#) from civil society for the UN to take a renewed role in ensuring a more equitable and democratic way forward, and a [proposal](#) has been set forward for a UN Economic Reconstruction and Systemic Reform Summit to do so in the context of the pandemic recovery.

#### iv. Austerity – a deeply flawed ‘solution’

Austerity tends to refer to a package of measures designed to enable countries to repay their debts. This is done primarily through a reduction in government expenditure, particularly with cuts to public spending, but can also include measures to promote the needs of business including labour flexibilisation – meaning a reduction in regulations that protect workers, and the liberalisation of trade and investment rules.

The focus of current austerity packages tends to include social protection reforms, cuts in public sector jobs and pay, labour flexibilisation, regressive consumer taxes along with cuts in public spending, as well as privatising public assets and the increased use of Public Private Partnerships (PPPs), all of which reduce the accessibility of critical essential services. Crucially, the focus of these economic reforms is a very narrow objective of ensuring that the country is able to pay its debts. Even during a pandemic, the need to for strong public services, universally accessible safety nets and good labour conditions is ignored. Meanwhile other solutions – such as progressive taxation and clamping down on tax evasion to increasing the money available to governments (known as fiscal space) are actually [discouraged](#).

Due to existing discriminations within the global economy and their role as front line responders, women’s rights will be particularly under threat. Over the last four decades, we have [seen](#) the way in which austerity measures are particularly damaging to women’s rights in a number of ways:

- As a result of their socially defined caring roles and lack of income, women are more reliant on **public services** and **social protection**, so are disproportionately hurt when they are cut. Public spending cuts have, for example, been [shown](#) to contribute to rising levels of violence against women in Brazil.
- Women’s already disproportionate **unpaid care** burdens further increase to fill the gaps that cuts in services create – already at their limits during the pandemic.
- Similarly, women’s roles in household management mean they have to find ways of stretching budgets when **regressive consumer taxes** hit marginalised households the hardest.
- Moreover the majority of women work in the [informal sector](#) leaving them more exposed to labour flexibilisation and less likely to be eligible for limited **social protection**, such as pensions, sick leave or unemployment benefit.
- Where women do have [decent work](#) it is likely to be in the public sector. Women make up the majority of all health and social care workers [globally](#). Austerity measures [discourage](#) and even prevent countries from recruiting **public sector workers**, and are likely to lead to public sector [wage cuts](#) over the next three years for most Global South countries.

## Is there an alternative?

Many feminists and women's rights organisations are proposing alternatives to austerity in order to achieve an equitable and just economic recovery (see box). These include measures such as:

- Government investment in social infrastructure and public services that increase the provision of care provide decent work for women and broaden the tax base
- Progressive taxation and clamping down on tax evasion and avoidance
- Universal social protection with particular focus on the informal sector
- Enforcement of both environmental and labour regulations
- Increased scrutiny and evidence-based use of PPPs
- Economic models that recognise both natural resources and unpaid care work are finite resources that must be valued and counted
- Democratisation of economic decision making at all levels with success of economic activity ultimately measured by well-being of people and the planet, not economic growth.

### Box 1: What are Southern feminists and women's rights organisations proposing?

- WoMin: [COVID-19 - Crisis Upon Crisis in Africa: An Ecofeminist Perspective](#)
- African Feminist [Post-COVID-19 Economic Recovery Statement](#)
- AWID: [From a Feminist Bailout to a Global Feminist Economic Recovery](#)
- #AllWomenWork Global Campaign Statement: [Invest in the Care Economy for a Just, Green, Feminist Covid-19 Response and Recovery](#)
- International Association of Feminist Economists (IAFFE): [Statement on Universal Social Provisioning](#)

## 3. What will happen next?

When temporary debt suspensions and emergency financing runs out, it is very likely that a large number of countries in the Global South will be forced to come back to the IMF for long-term loan programmes that are conditional upon severe austerity measures.

- [Analysis](#) of IMF reports shows that 80 countries are already planning to implement austerity measures between 2021 and 2023, with half of the cuts taking place in 2021 - long before any kind of economic recovery will be apparent.



- Governments in 40 countries have already cut their public spending, especially in education and development, despite being in the midst of an unprecedented health emergency and economic crisis.
- The [planned cuts](#) are drastic, worth an average of 3.8 per cent of GDP and at least 40 countries are expected to make cuts equivalent to their entire health care budget.

The depth of the cuts also demonstrates the inadequacy of the emergency relief funds. Of those countries in receipt of emergency funds, 59 have made [plans](#) to take austerity measures that are almost five times larger than the size of Covid-19 response packages implemented in 2020.

### How are countries responding?

One country has already successfully resisted. The government of [Costa Rica](#) approached the IMF for a new long-term loan in August, after receiving emergency financing in April. To satisfy the IMF, the government pledged severe austerity measures, including tax hikes and freezing public sector wages. In response, Costa Ricans came out in force in four days of persistent street protests, demanding its government not blindly adhere to the broken ideas of the IMF. In the face of this pressure, the President withdrew the austerity proposals and called for a national dialogue across many sectors of society to decide on how to move forward instead – which resulted in a set of new agreements that protect Costa Rica’s welfare state and does not place the burden of the adjustment on the shoulders of the poor and working class.

Meanwhile in [South Africa](#), public sector workers have gone on strike to protest cuts in public spending on services, while women’s rights organisations in [Pakistan](#) are supporting the government’s refusal to concede the IMF’s demands.

## 4. Conclusion

There are two fundamental problems with the way that the IFIs have responded to the COVID-19 crisis. First, the additional funding is inadequate and inappropriate and will not prevent countries from falling into further economic crisis and debt. Second, when countries are in serious debt, they have little alternative but to accept the ‘medicine’ of the IMF. This package of economic policies has been shown time and time again to undermine women’s rights and fail to produce recovery, because they put debt repayments before people.

The lasting impact of the pandemic will lie not just in the subsequent economic shocks but in the failure of the international institutions to respond appropriately – privileging creditors over the SDGs, failing to redistribute resources equitably, and following economic dogma which have been proven time and time again to fail.

## Box 2: Find out more about what the IMF is doing in your country

- You can find out if your country has received [emergency funding](#) from the IMF as part of the Covid-19 pandemic. Most of the loans were made through the IMF's Rapid Credit Facility and Rapid Financing Initiative, which are designed to provide quick one-off financing for countries facing disasters, such as the pandemic. The IMF has also provided debt relief through its Catastrophe Containment and Relief Trust, designed for the poorest and most vulnerable countries during a crisis such as the pandemic.
- All of these lending agreements between governments and the IMF can be found on the IMF's individual [country pages](#), usually named 'Requests for Disbursement under the Rapid Credit Facility/Rapid Financing Initiative; Staff Report'.
- Independent groups have also made [available](#) the policy commitments governments already made to the IMF and more [details](#) about the IMF Covid financing.
- You could also raise concerns with your IMF [resident representative](#) – more background is available from the [Bretton Woods Project](#).

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The Gender and Development Network (GADN) brings together expert NGOs, consultants, academics and individuals committed to working on gender, development and women's rights issues. Our vision is of a world where social justice and gender equality prevail and where all women and girls are able to realise their rights free from discrimination. Our goal is to ensure that international development policy and practice promotes gender equality and women's and girls' rights.

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