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November 14, 2007

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, DC 20431

Dear Mr. Strauss-Kahn,

We write to congratulate you on your election to the Managing Director post at the IMF and to express our strong support for the emphasis you have placed on the problems of economic inequality and poverty. We very much agree with you that the IMF can and should play a role in reducing poverty and inequality globally. However, seven years after the IMF announced a new focus on poverty through the creation of the Poverty Reduction and Growth Facility, the initiative has had disappointing results, due in our view to policies that too often appear to exacerbate rather than alleviate both poverty and inequality in low income countries.

We are concerned by the IMF's adherence to overly rigid macroeconomic targets in these countries. The IMF's Independent Evaluation Office (IEO) earlier this year documented a pattern of IMF policies in Sub-Saharan African countries that sought to constrain inflation and fiscal deficits to levels that, while they may have promoted stability in the countries, did so at a cost to economic growth.

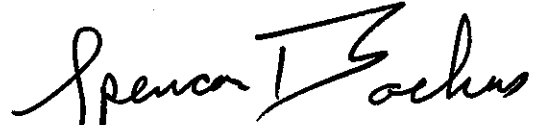
In the case of poor countries, which rely heavily on foreign aid for budget support, IMF-prescribed budget and inflation targets also have direct and negative consequences for the wise use of this aid. We note that the same IEO report on Sub-Saharan Africa suggested that IMF conditions have required substantial diversion of foreign aid away from its intended use in areas that directly address poverty alleviation (eg, health, HIV/AIDS, and education) in favor of deficit reduction and the accumulation of currency reserves. The report identified a combination of IMF requirements on currency reserves and inflation levels that resulted in just a fraction of every new aid dollar being spent as intended by donors within a reasonable time period. This in our view is a grossly inappropriate and intolerable outcome. It is particularly troubling to us that the IMF's policy positions do not reflect any consensus view among economists regarding appropriate inflation and reserve targets.

Finally, we are also concerned about the IMF's reliance on wage bill ceilings in poor countries as part of its policy input on fiscal targets. While we appreciate the Fund's recent clarification that these ceilings should be used only in exceptional circumstances, the lack of acknowledgment that they have been overused by the Fund to date suggests that this policy instrument may continue to be overly prescribed by the IMF.

We look forward to working with you as you assume your new post.



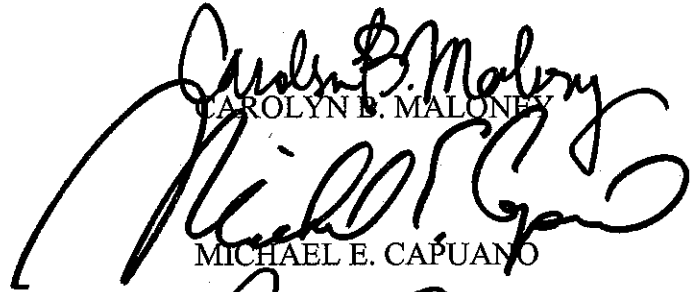
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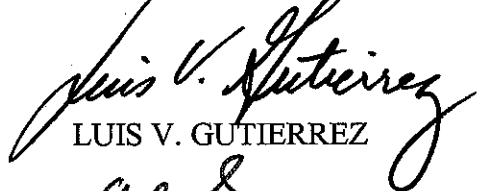
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