

Mr. Mika Uolevi Pösö

Executive Director, Office of the Nordic – Baltic Constituency

October 5th, 2020

## **IMF Annual Meetings 2020**

Dear Mr. Pösö,

We, the Nordic-Baltic civil society constituency working for human rights, the eradication of poverty, climate justice and fair distribution of power and resources, thank you for the opportunity to comment on the Nordic-Baltic Constituency's work within the IMF. We would like to take the opportunity to raise some issues of concern ahead of the 2020 annual meetings.

### **Securing Debt Sustainability for Financing of the SDGs**

Both the short- and long-term effects of the corona crisis on poverty and inequality globally are extremely worrying. The implications of the crisis will have far-reaching detrimental effects on the fulfillment of the Sustainable Development Goals (SDG) and human rights obligations in developing countries especially. The corona crisis has exposed the fragility created by excessive willingness and possibility to take on financial risk. The checks and balances aimed at securing debt sustainability are insufficient. Before the corona crisis, global debt levels were record high, due to a combination of easy access to financing in the wake of the 2008 financial crisis coupled with weak systems for securing responsible lending and borrowing from all types of creditors to sovereigns. The multilateral inability to bring private creditors to the negotiation table also exposes the weaknesses of the current system for securing effective and equitable solutions to sovereign defaults.

There is substantial data underlining the severe human consequences of protracted sovereign defaults. We commend the IMF for the progressive role it is playing in calling for substantial political contributions in mediating the negative effects of sovereign debt distress, including debt relief when needed, to bring debt levels down to a sustainable level. We encourage the IMF to keep taking an active role going forward in calling for an extension of the G20 DSSI as well as calling for eligibility of a wider range of countries in the initiative. As recognized by the Heads of States of the G7 during their meeting in late September there will be a further need for debt treatment beyond the question of liquidity and we thus encourage the Fund to call for renewed global efforts towards strengthening the global systems for debt crisis resolution, giving tangible effects for private sector involvement. We believe that agreeing on a global all-encompassing framework is both vital and urgent in order to ensure global human rights as well as attaining the SDGs in only ten years. We would be very interested in hearing your views on this, and if you agree, which practical next steps might be taken.

### **Debt Sustainability Analyses: SDGs and human rights**

Fulfillment of the Sustainable Development Goals and human rights obligations should be central when assessing debt sustainability and the need for debt restructuring. Calculations of SDG financing needs and human rights obligations should be incorporated into all relevant frameworks. This is especially important when the IMF makes assessments as to whether a crisis program warrants

substantial restructuring of outstanding debts owed to other creditors. Assessments must look beyond sustainability strictly in terms of default and consider the political and social viability of financial reforms meant to address solvency problems. It is especially important to address the issue of overly optimistic economic projections and widen the criteria in assessments for Market Access Countries to include risk assessments. Both the Debt Limits Policy and the Debt Sustainability Framework for Market Access Countries should include data on debt service, interest rates, maturity and debt to revenue ratios. Debt levels should only be considered sustainable when they are moderate with substantial ability to absorb shock and leave sufficient space for financing of SDGs and fulfillment of human rights obligations.

We hope that the Nordic-Baltic office will support progressive suggestions by staff in the upcoming reviews of the Debt Limits Policy in October and Debt Sustainability Framework for Market Access Countries in December and suggest further changes to these frameworks if the reviews do not sufficiently address the issues mentioned above.

#### **Catastrophe Containment and Relief Trust (CCRT)**

The IMF should work with their shareholders to provide new and additional support that is not reallocated from ODA budgets for the CCRT going forward in order to meet the demand in tranches after October 2020. The Nordic-Baltic Constituency should encourage its members to pledge further donations to the replenishment of the CCRT and advocate relaxing of eligibility criteria so as to include a wider range of countries in the initiative.

#### **Avoiding harmful fiscal consolidation**

The IMF has in the past few months increased its lending through several mechanisms in order to meet the extraordinary financing needs of member countries. Despite the Fund's own warnings of deepening inequality, these new loans include language promoting fiscal consolidation and austerity conditions that will serve to deepen existing inequalities. The crisis finance provided by the Fund during the Covid-19 pandemic will shape the economic and social landscape in many countries for years to come. Thus, the IMF should consider very carefully the impact of austerity measures on the possibility of equitable and sustainable recovery from the pandemic and implement measures that protect the most vulnerable. Financing issues should be solved through other means than harmful fiscal consolidation. Two relevant measures are new issuance of Special Drawing Rights and promoting debt restructuring.

Best regards,

Debt Justice Norway (SLUG)  
The Norwegian Forum for Development and Environment  
Changemaker (Norway)  
ActionAid Denmark  
Oxfam IBIS (Denmark)  
Norwegian Church Aid  
Diakonia (Sweden)  
Act Church of Sweden

Save the Children Norway

Finn Church Aid

This letter has also been sent to national ministries within the Nordic-Baltic constituency.