

IMF Annual Meetings 2021 Nordic-Baltic CSO Letter

Dear Mr. Pösö

We, the Nordic-Baltic civil society constituency working for human rights, the eradication of poverty, climate justice as well as 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 2021 annual meetings.

Debt Relief and rechanneling of SDRs

The recent issuance of Special Drawing Rights to the amount of 650 billion USD is a welcome move in order to relieve some of the fiscal pressures of developing nations. It is nonetheless important to underline that the SDR issuance should not divert attention from the fact that a number of countries will also be needing substantial debt relief in order to reinstate sovereign debt sustainability.

It is most welcome that the G7 has indicated that an additional [100 billion](#) worth of SDRs might be rechanneled to countries in need. Should this rechanneling take place, civil society has set up some [principles](#) that would ensure that such a rechanneling would not contribute to exacerbating the current sovereign debt problems many developing nations face. A rechanneling of SDRs should ensure debt free financing, free of conditionalities other than those ensuring transparency and accountability. A rechanneling of SDRs to the amount of a 100 billion USD should also be accessible to middle income countries currently excluded from existing debt relief schemes and must be additional to existing ODA and climate finance commitments. We encourage the Nordic-Baltic constituency to work towards mobilizing political support for a grant based debt cancellation mechanism, available to all countries in need.

Austerity

An important lesson from the financial crisis ten years ago is that fiscal stimulus should not be phased out too fast, as this may perpetuate the social and economic crisis and slow down recovery. In principle, this has been a consistent message from ministries of finance, as well as the IMF since the beginning of the Covid crisis. In its latest [World Economic Outlook](#), the IMF notes that *"a double hit to emerging markets and developing economies from worsening pandemic dynamics and tighter external financial conditions would severely set back their recovery and drag global growth below this outlook's baseline."* At national level, several of the Nordic-Baltic countries continue to pursue expansive fiscal policies for this reason. This is also underlined by the ILO in the World Social Protection Report 2020-2022, saying that in order to recover from the pandemic, build social and economic resilience and promote future growth, investments in social protection must increase significantly. (Reference: ILO, 2021, World Social Protection Report 2020-22).

In our previous discussions, we CSOs have raised a concern around the gap between policy and practice. In spite of its general policy recommendation not to impose austerity measures, a [recent study](#) by Oxfam finds that the IMF has in fact recommended fiscal consolidation during the recovery period as a solution to increasing debt levels and fiscal

deficits for 73 countries. 26 governments, primarily in Africa and the Latin American and Caribbean regions, have plans to commence or resume fiscal consolidation as early as 2020 and 2021. The most commonly proposed austerity measures in the IMF loans include wage bill cuts and freezes (31 countries), increases to or the introduction of value-added tax (VAT) (14 countries), and general public expenditure cuts (55 countries). These findings are alarming, especially as a number of earlier studies show that the burdens of austerity tend to be unevenly distributed, and more likely to be shouldered by women, low-income households and vulnerable groups. Likewise, the recent evaluation report from IOE, Growth and adjustment in IMF-supported programs ([IEO's website](#)) notes that “efforts to protect low-income and vulnerable groups often fell short of their goals; health and education spending did not increase significantly...” and recommends that “attention to growth implications of IMF-supported programs should become more thorough, systematic, realistic and sensitive to social and distributional consequences”. Hence, the risk that IMF policy recommendations still promote austerity continues to be an issue of great concern.

Aid to domestic resource mobilisation (DRM)

As a member of the ATI, the IMF renewed its commitments with the ATI 2025 declaration, which includes four commitments for the period of 2021-2025. Among these are a pledge to enhance domestic resource mobilisation (DRM) through "equitable tax policies" and efficient, effective and transparent administration. It is therefore natural that the IMF, as a member of the ATI, contributes to improving progressive DRM. The need for increased DRM has become ever more pressing with the Covid-19 pandemic.

Firstly, it's important that the DRM programs the IMF and other ATI partners support enhance DRM on the basis of being equitable tax policies - and ensure that tax reforms advance the SDGs, work for the broad population, are fair (i.e. those who can pay more should) and effectively administered. Secondly, in order to see how well these programs work in terms of creating fair and effective DRM, it's important for the IMF, other development partners and partner countries to be able to monitor the programs. This is important in order to learn from experiences and improve future programs.

A forthcoming report “*Nordic countries’ cooperation with the IMF and the World Bank Group on domestic resource mobilisation*”, commissioned by the Nordic Alliance for Tax Justice, however, finds indications that there may be discrepancies between policy and practice. The report shows that a significant amount of Nordic aid goes through the IMF, for example the IMF’s Revenue Mobilisation Thematic Fund. However, there seems to be limited transparency on objectives and monitoring of these initiatives, making it hard for donors and others (for example civil society) to evaluate the efforts and the extent to which they meet with the ATI commitments.

We therefore recommend the Nordic-Baltic group to work for the IMF to increase transparency around monitoring and results reporting of DRM programmes supported through IMF facilities. Furthermore, these should include assessments of the quality of the programs (fairness, equity, efficiency, effectiveness etc.) as well as quantity of revenue mobilised.

Climate

In July 2021 the IMF adopted a [new climate strategy](#) encouraging the IMF to look at transition management in all countries. This is important, as the IMF should support countries in a just energy transition.

However, a new report, [IMF Surveillance and Climate Change Transition Risks](#), from August 2021 by ActionAid and the Bretton Woods Project highlights a clear misalignment between IMF's policy recommendations and global scientifically-based climate targets. The report examines 457 instances of bilateral "Article IV Surveillance" policy recommendations by the IMF to member countries in the period from December 2015, post-Paris Agreement, to March 2021. Ultimately, the IMF's recommendations promote carbon-intensive exports and austerity measures, which undermine global strides towards a just energy transition.

The findings in the report show a clear favouritism on the part of IMF towards expansions and developments of fossil fuel extraction and appertaining infrastructures. In more than half of member countries (105 countries), the IMF recommended increased investments in fossil fuels. Also, IMF's advice promoted higher levels of privatisation of the energy sector in more than a third of the member countries (69 countries). At the receiving end of IMF's policy recommendations are a significant number of emerging and developing economies, which are most vulnerable to the transition risks towards decarbonisation and a responsibility to address and reduce these global asymmetries must be an integral dimension within IMF's framework.

The Nordic-Baltic group has the capabilities and responsibility to advocate for achieving a just energy transition and promote a science-led approach towards decarbonisation. We therefore ask that as **the IMF expands upon its climate work, the Nordic-Baltic region advocates for just energy transition and demands abandoning calls for austerity and the favouritism of carbon-intensive exports. Instead, the IMF must integrate climate considerations and transition risks into their policy recommendations and become an active driver in the effort towards a just decarbonisation of the global economy.**

Debt Justice Norway

Oxfam IBIS Denmark

ActionAid Denmark

Diakonia Sweden

ACT Svenska Kyrkan

Finnish Development NGOs - Fingo

Norwegian Church Aid

Save the Children Norway

Norwegian Forum for Development and Environment

Tax Justice Network Norway

Estonian Roundtable for Development Cooperation