IMF Annual Meetings 2023 Nordic-Baltic CSO Letter

Dear Mr. Vasiliauskas

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 2023 Annual Meetings.

Responsible Financing and Transparency

The lack of progress in building more robust systems for preventing and resolving sovereign debt crises continues to worry civil society. One key aspect in both preventing and resolving existing and future crises is transparency. The lack of a robust system for ensuring comprehensive and timely information on the composition of sovereign debt owed to all types of creditor groups is a big gap in the existing debt architecture, as has been pointed out by both the World Bank and the IMF.

The IIF 2019 *Voluntary Principles for Debt Transparency* and the ensuing OECD Debt Transparency Initiative had promising elements, but as shown by Debt Justice UK, has large shortcomings in implementation. This initiative also encompasses only one creditor group: The private sector. There is a great need for a comprehensive dataset, available for public scrutiny, where all forms of sovereign debt from all types of creditors is readily available. The IMF and the World Bank already host much of this relevant information with limited disclosure to the public. The fund and the IMF should be mandated to work together to set up such a publicly available, user-friendly, registry for all types of government debt, after the model of the OECD registry.

According to Norwegian minister of Development, Anne Beathe Tvinnereim, the Nordic Baltic constituency of the World Bank has asked the World Bank to initiate the establishment of "a global framework for full disclosure of sovereign loan contract terms and payment schedules".

- *How has this proposal been received by the board of the IMF?*

A worsening debt crisis in the global south that is hindering climate action

Despite the attempts by the IMF to argue that the debt crisis is not yet a systemic crisis, it is clear that we are facing a rapidly worsening debt crisis in the global south. Up to 136 countries are in a critical or very critical debt situation. Lower income country debt payments in 2023 will hit the highest level since 1998, with borrowing costs outweighing health, education and climate spending in many countries. In light of this situation, the G20 Common Framework and debt restructuring processes outside the framework, are clearly not delivering on fair, timely and comprehensive sovereign debt resolution. The current debt architecture is not fit for purpose and a reform is urgently needed.

Many key institutions and decision makers have recognised that high debt levels are undermining climate action in vulnerable countries, including UNCTAD the V20 and the IMF itself. 62% of IMF borrowers are among the top third of most climate vulnerable countries. In an effort to generate revenue to repay debt, many lower income countries are also turning to their natural resources, including fossil fuels.This is often encouraged and enforced by the IMF's own surveillance and lending agreements. For example, the IMF has recently endorsed scaling up fossil fuel exports and investment in related infrastructure in both Uganda and Argentina. Additionally, inadequate climate finance in the form of non-concessional lending for mitigation, adaptation and addressing loss and damage is forcing many lower income countries further into debt. On top of 71% of climate finance being currently provided as loans (with just 26% provided as grants and 3% as equity), the climate crisis is also increasing borrowing costs.

In light of this, we are deeply concerned about proposals to increase lending from MDBs and the private sector to plug the climate finance gap. This will exacerbate debt levels and force the costs of the climate crisis onto lower income countries. It will also open the door to new conditionalities particularly by the World Bank and the IMF which have been proven ineffective for delivering on the SDGs and people's economic, social and cultural rights. Furthermore, without debt relief, any new loans to lower income countries will likely have to be used to repay existing creditors as opposed to being allocated to climate action. If a high proportion of these loans come from MDBs and the IMF, when debt relief does inevitably take place in coming years, multilateral institutions will have to cancel much more than if debt relief took place now.

A profound review of the Debt Sustainability Analyses is required

Debt sustainability analyses are a key element in debt restructuring negotiations. The DSA is the basis for determining not only the size of the IMF loan within a new programme, but is also used to indicate the amount by which debt should be reduced to reach sustainable levels, mainly focusing on the country's repayment capacity. However, climate vulnerabilities and climate finance needs, together with broader SDGs financing needs, have been systematically excluded from the IMF evaluation of debt sustainability. The Sovereign Risk and Debt Sustainability Framework for Market Access Countries (SRDSF - the result of the MAC DSA review in 2022) addressed climate for the first time, albeit in a non-comprehensive way'. The climate submodules are not compulsory and they fail to properly address the impacts of climate change or the financing needs for mitigation and adaptation. Climate risks, impacts and financing needs are still not included in low-income countries DSAs, and the outcomes of the implementation of climate submodules for market access countries are very poor. A profound review of the IMF and World Bank approach to DSAs is urgently needed, not only tweaking the existing methodology, but opening a debate on the role, composition and use of DSAs, including the need for a debt sustainability analysis by an independent institution and ensuring debt services are not an obstacle to fulfilling international obligations on climate goals and human rights.

Questions:

- *Countries in debt distress need unconditional debt cancellation, especially in light of the urgent need to address the climate crisis. But the Common Framework isn't adequate and it isn't working. What options do you see for a broader discussion on debt architecture reform? What is your opinion on the need for the World Bank and the IMF to participate in debt restructuring and deliver on debt cancellation to countries in crisis?*
- *What is your response to the risks entailed by proposing debt-creating climate finance solutions for debt distressed countries? What is the IMF response to simultaneous debt and climate crises?*
- *In light of the upcoming LIC DSF review, would you support a broader discussion on debt sustainability and the fulfillment of international climate obligations and the mandatory use of climate modules?*

Austerity & Financial Space for Social Protection

In previous letters to you and your predecessor, we have raised the importance that investments in social protection increase significantly in low- and middle-income countries – in order to recover after the pandemic, build social and economic resilience, contribute to the global commitment to end poverty and reduce inequalities for all people within and between countries, and promote future growth. We have also raised the concern that despite a significant change at policy level, including the policy for social spending floors, IMF still promotes austerity, undermining much needed social investments.
It is in this context that we would like to draw to your attention a report soon to be published by Human Rights Watch: *Bandage on a Bullet Wound: IMF Social Spending Floors and the Covid-19 Pandemic* (will be published at the end of September). Based on an analysis of 39 IMF loan programs approved between March 2020 and March 2023 the authors find that:

- The Fund continues to rely on its traditional approach of expecting governments to reduce debt through fiscal consolidation. Programs routinely include conditionalities that impose cuts to public spending and raise the tax burden in ways that disproportionately burden people on low incomes, and they do not adequately explore alternative approaches.
- While many loan programs acknowledge likely harmful social impacts and the importance of "protecting the poor and vulnerable," they do not generally include an analysis of these impacts, despite guidance in its social spending strategy to do so.
- There are numerous gaps in how social spending floors are defined and designed that limit their effectiveness.
- The Fund's approach of heavily relying on poverty-targeted cash transfer programs is out of step with the growing number of international institutions and scholars that have recognized that universal social protection programs are far better at reaching the most vulnerable when compared to means-tested programs. In addition, universal programs are more likely to be sustainably financed through domestic resources.

With regard to the last point, that the Fund is relying on poverty-targeted cash transfers, we encourage you to look at the latest joint report from Act Church of Sweden and Development Pathways: An affordable and feasible pathway to universal social security. This report challenges the standard argument that universal social protection programmes are too expensive. With the examples of Ghana, India, Uganda, and Vietnam it shows that a universal system covering old age, disability, and child benefits can be delivered at a cost of between 1.5-3 percent of GDP for the countries included in the study. While this level of finance can be challenging for low- and middle-income countries, the study shows that if introduced gradually, these investments are in fact affordable for most countries. The analysis further shows that the impact on poverty would be remarkable: after the schemes have been fully implemented in 2038, the national poverty rate in these countries would fall by between 45 and 70 percent. For your information, we would like to inform you that Act Church of Sweden is part of the international campaign *Social Security for All: Key Pillar for New Eco-Social Contrac*t which is going to be launched in the beginning of October. Below are a few of the demands that are addressed at the IMF:

- The World Bank and the IMF should immediately commit to support states to progressively realize the right to social security.
- The IMF should support equitable and sustainable public social security systems in accordance with international standards.
- The IMF should stop austerity policies that threaten rights. It should ensure that any increase in social spending in one sector, for instance on social security, does not come at the expense of other rights and should not promote introducing means-testing to existing universal programs.

With reference to earlier discussions on universal social protection, we would like to call to your attention a proposal for a roundtable discussion around the role of the IMF and the World Bank in promoting universal social protection. The proposal was developed together with advisers in the Nordic-Baltic offices and sent to the Nordic-Baltic coordinators on the World Bank side in the beginning of 2023. As the World Bank has been busy with the "evolution roadmap", the initiative was postponed, but we hope that the idea can be resumed, and the proposed meeting be organized within the near future.

- ***Questions:***
  Do you agree that there are serious concerns with the implementation of the policy on social spending? Is this an issue that you can raise in the executive board, for example request an evaluation or review?
- *What are your comments to the demands from the international campaign for universal social security?*
- *Are you willing to participate in the proposed roundtable meeting on the role of the IMF and the World Bank in promoting universal social protection? If a roundtable is further postponed, would you be interested in a smaller scale meeting with one or two experts?*

Implementation of IMF's Strategy towards Mainstreaming Gender

Last year, the executive board of the IMF adopted its first-ever gender strategy. The implementation is piloted in around ten countries.

Question: Can you give an update on how the implementation process is taking place. Are there any results from the roll out in the pilot countries?

Debt Justice Norway

Swedish Society for Nature Conservation

Act Church of Sweden

Save the Children Norway

Norwegian Church Aid

The Kvinna till Kvinna Foundation