IMF Annual Meeting 2025 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 2025 Annual Meetings.

Global Sovereign Debt Sustainability

Many countries are in severe debt crises, with external debt payments at the highest level for three decades. This crisis is compounded by a status quo secured by the alliance of the G20, IMF and World Bank which considers that debt cancellation is not needed, allows private creditors to drag out debt relief negotiations for years, and leaves countries highly indebted even after debt relief is finally agreed. The status quo allows debt contracts to remain secret, provides weak rules for responsible lending and borrowing, and so ensures the repetition of debt crises.

It is urgent and vital that the international community takes bold action to enable countries to create a new financial architecture which resolves current debt crises in a fair, fast and deep way, and prevents future crises through rules on transparency and responsible lending and borrowing. We are happy that the outcome document of this year's UN Financing for Development Conference clearly states the need for progress on bettering global systems for ensuring responsible sovereign lending & borrowing, as well as increased transparency on sovereign debt composition.

There`s a need for political will to back proposals for a more inclusive and democratic global debt architecture, rather than limited offers to improve the ineffective Common Framework, promotion of debt swaps and state contingent clauses. Strengthening of the Common Framework won't deliver on sufficient, comprehensive and fair solutions for borrowing countries, as it remains a voluntary framework lacking in multilateral legitimacy. In this context, we call on the Nordic Baltic group to support the efforts of global south governments that try to achieve ambitious reform of the global debt architecture to ensure a fair and transparent multilateral sovereign debt resolution mechanism, in order to deliver on faster, fairer and more orderly debt restructurings and cancellations for the borrowing countries.

The IMF & World Bank's current review of the joint Low-Income Debt Sustainability Framework (LIC DSF) constitutes a fruitful opportunity to materialize concrete steps to honor the commitments made in the FfD outcome document regarding strengthened global systems to ensure responsible sovereign lending and borrowing practices. Going forward, the World Bank can also play a crucial role in providing detailed information regarding specificities on government debt contracts in order to facilitate public scrutiny. Along with global civil society we have previously submitted a joint statement detailing recommendations on changes to strengthen the LIC DSF in the current review - the submission can be found in the attached documents.

In relation to recommendation 1 in the mentioned joint civil society policy brief on the Framework (consistency with "acceptable progress on development goals") we would like to emphasise that *obligations to continue to deliver social protection programs* over the projection period of the DSF should, as a minimum, be included in the assessments. In this context, we would also like to remind you that the Compromiso de Sevilla (51 a) "encourage the IMF and the World Bank to continue to refine debt sustainability assessments to better account for sustainable development priorities and spending needs including in relation to climate and nature actions; consider multidimensional vulnerabilities..."

In relation to both recommendation 1 and 3 (ambitious scenarios in line with SDG`s and human rights) we suggest that the financing gap estimates that Act Church of Sweden will soon publish together with Development Pathways, will be a useful source of reference. We would also like to remind you that the positive impact of social spending on economic growth and exports (including long-term positive impacts on productivity) should be considered in this context. The IMF Operational Guidance Note On Program Design and Conditionality states that IMF staff "should seek to protect social spending and mitigate the adverse effects of program measures on the poor and vulnerable" and "be mindful of the positive macro impact of social spending, via relatively high fiscal multipliers. As the sovereign debt situation is critical in many countries, reinforcing other crises and undermining progress in areas such as health, poverty reduction, education and climate resilience, a broad mobilisation is underway to raise the debt issue on the global political agenda. The initiative for the campaign Turn Debt into Hope which is implemented globally during 2025 originates from the Catholic Church and ecumenical networks, but there are also secular organisations and networks supporting. In Sweden, the campaign is hosted by Act Church of Sweden and called *Vänd skuld till hopp* and is supported by all churches in the Christian Council of Sweden (*Sveriges kristna råd)* as well as the faith-based organisations Caritas Sweden, PMU, Dakonia and the Swedish Missions Council.

The Nordic Baltic constituency should encourage:

- a review of the IMF & World Bank joint Low-Income Countries Debt Sustainability Framework (LIC DSF) ensuring the assessments are aligned with human rights, climate and sustainable development needs through the inclusion of, for example, obligations to continue to deliver social protection programs and including ex-post and ex-ante gender, human rights and environmental impacts assessments and audits to identify illegitimate, illegal and odious debts.
- the IMF & World Bank to back major jurisdictions in passing domestic legislation to limit holdout creditors and facilitate effective debt restructuring.
- the development of a binding single global public debt registry, independent from creditors, to promote transparency and accountable borrowing and lending. The World Bank needs to be mandated to provide relevant sovereign debt information on a country level to such a global registry.
- the operationalization and implementation of binding multilaterally agreed principles of responsible sovereign lending and borrowing, and promotion of legislation, both in lender and borrower countries, that mandates transparent and fair governance and management of sovereign debts.

- the development of automatic debt service cancellation mechanisms that protect global south countries from extreme climate, environmental, economic, health, food and security shocks.

<u>Inequality</u>

Inequality is a major obstacle to poverty reduction. We welcome the fact that the World Bank has introduced a new vision indicator on inequality that tracks the number of countries with a Gini index above 40 and emphasize that it is important that the indicator is used to guide the Bank's work on a practical level.

Two-thirds of Southern and Eastern African countries now fall into the category "highly unequal" (Gini Index above 40), which is the highest proportion of any global region. It is therefore especially vital for the IMF & World Bank to focus on tackling inequality in these regions, in order to reduce extreme poverty. There is also momentum on this issue in the region, given AU:s recent commitment. Earlier this year, four CSOs from Norway, Sweden and Finland, together with the All African Council of Churches, co-published the report *Tackling Inequality at Its Epicentre: Eastern and Southern Africa*. Based on the Commitment to Reduce Inequality (CRI) Index the report analyses how governments address inequality through public services, taxation, and labour rights, and also highlights the role of the international community, in particular IMF and the World Bank.

The report includes detailed recommendations to national governments and the following recommendations address the international community:

- Support countries to design and implement anti-inequality action plans.
- Put tackling inequality at the centre of IMF and World Bank efforts to promote growth, stability and development.
- Provide comprehensive relief of debt burdens.
- Redouble efforts to provide more concessional financing.

The regional rapport was launched at the IMF/WB Spring meetings and also presented at a side event to the recent SADC meeting. In addition, a number of country briefings, focusing on the policies of countries such as Malawi, Tanzania and Zambia are produced and launched at national level, in order to influence national policy debates.

In the Sevilla Commitment, Member States commit to promote progressivity and efficiency across fiscal systems to address inequality and increase revenue. Paragraph 54 h) specifically mentions to strengthen the consideration of social protection and social spending in IMF-supported macroeconomic adjustment programmes.

We hope that the constituency will find the above-mentioned reports useful and encourage you to make use of the data and analysis whenever inequality is on the agenda and in issues related to the situation in countries in Eastern and Southern Africa. Tackling inequality needs a range of concrete actions across different areas. We encourage the constituency to actively push for plans and measures to improve the inequality indicator.

<u>The Nordic Baltic constituency should encourage:</u>

- The IMF and World Bank to support countries develop anti-inequality action plans

Social Protection

As discussed in this forum before, the perception that implementation of universal social security benefits is too costly to implement in low- and middle-income countries is the only, but very powerful, argument in favour of poverty-targeted rather than universal/categorical social benefits. In 2024, ILO published cost estimates of social protection floors indicating that it would require 19.8 per cent of GDP for low-income countries to implement universal social security. (The main reason for the high costs is the very high transfer values proposed for many low-income countries. In particular, the transfer value suggested by the ILO for an old age pension in Sudan was US$5,559 per year, more than 200 per cent of GDP per capita. Sudan alone accounted for around half of the cost of 19.8 per cent of combined GDP across low-income countries.) 19.8 per cent is obviously far beyond the fiscal space of any LIC, and the study thus serves to confirm the argument that universal programs are not affordable. The cost estimates have been challenged by Development Pathways, who has pointed at a number of errors and methodological problems. (defense from ILO and a response to the defense can be found here).

Shortly, Development Pathways and Act Church of Sweden will publish an alternative set of cost estimates for immediate or gradual implementation of a number of universal and life-cycle-based social benefits in all low- and middle-income countries for which there was available data. The key methodological difference, compared to the ILO calculations, lies in the point of reference used to determine benefit levels. The ILO used the nationally defined poverty line as its point of reference; other researchers have relied on global poverty lines. In contrast, the new study follows a pragmatic approach and uses existing benefit levels in other countries as its point of reference. The methodology is a further elaborated version of the model that was used in the report An affordable and feasible pathway to universal social security, which we published in 2024.

We do not claim that the proposed benefit levels will eradicate poverty. Rather, they are aligned with countries' financial capacities. While we do not calculate benefits at an "adequate" level, we argue that our approach is consistent with a human rights framework, as it provides cost estimates that states can realistically finance with domestic resources. We also show how these schemes can be introduced gradually, ensuring that the right to social security is 'progressively realized' in line with human rights standards.

Following this methodology, we find that the total cost of immediate introduction of child benefits, old age pensions, maternity benefits, disability benefits and caregivers' benefit will be 2.6 per cent of GDP for low- and middle-income countries compared to the 3.3 per cent of GDP in the ILO study. The main difference can be seen in low-income countries: our cost of 3 per cent contrasts markedly with the ILO's estimate of 19.8 percent in the ILO study. In addition to data and cost estimates for individual low- and middle-income countries, an on-line costings tool has been produced, where readers can undertake calculations using their own parameters.

We hope that the report, and the online tool, will be useful in policy discussions on social protection, as well as in the context of defining social spending floors and debt sustainability assessments.

- **From the information given above, do you think the report and calculations would be useful to refer to in discussions with IMF experts?**

Debt Justice Norway

Norwegian Forum for Development and Environment

Swedish Society for Nature Conservation

ACT Church of Sweden

Norwegian Church Aid