IMF Spring Meetings 2024 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 2024 Annual Meetings.

Debt as a Liquidity vs. Solvency Problem

There is a debate whether the debt of many developing countries is a solvency or a liquidity problem. Recently we've seen proposals – such as the Bridge proposal – which treats it firmly as a liquidity issue. We disagree. While it still could be useful for countries to postpone their debt payments it will only do that – postpone the problem and kick the can down the road. A reduction of debt stock is urgently needed. We refer to the updated Debt Watch Briefing, supported by Norwegian Church Aid, of last year showing that debt service has reached 30% of public spending across the South and 40% of public spending in Africa. According to IMF forecasts, Chad, Ghana, Sri Lanka and Suriname will still pay an average 48% of their government revenue on debt service.[1] The average spending on debt service after the HIPC/MDRI deals was 11%. These countries will have to cut spending by 4% in the next five years leaving no room to deal with the climate crisis or for tackling the SDGs.

In the long term we believe a permanent debt workout mechanism is needed. In the short term, we urge the Nordic Baltic chair to work towards a debt relief framework which is:[2]

1. open to all countries which need relief based on the weight of their debt burden, regardless of their income level or special situation, and tailored to maximise access to affordable financial markets, so that most countries which need relief will also want it.

2. maximizing its contribution to the SDG and climate adaptation financing needs of debtor countries, by basing the assessments of debt sustainability and relief needs on bringing debt service to revenue levels down to below 15% of budget revenue, while ensuring that the spending itself is highly "productive" in terms of SDG results.

3. rapid in order to avoid delay, and automatic or "orderly" to minimise uncertainty, by identifying unsustainability clearly as soon as it emerges, and following this with immediate formal standstills of debt service payments.

4. including all creditors (ie commercial, multilateral, domestic and non-Paris Club governments), by providing them with menus of different modalities to fit with their national legal and regulatory frameworks, and offering them multiple "carrots and sticks" to encourage participation.

5. providing legal protection against holdouts and lawsuits, preferably through laws similar to the vulture fund law introduced by the UK in 2010 forcing all creditors to provide comparable treatment, as well as laws to protect payments systems from seizure of assets.

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[1] https://www.development-finance.org/files/Debt_Service_Watch_Briefing_Final_Word_EN_0910.pdf

[2] https://www.kirkensnodhjelp.no/contentassets/c1403acd5da84d39a120090004899173/report_summary_newdebtcrisis_digital.pdf

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Policy on social spending

Four years have passed since the International Monetary Fund adopted a new Strategy for Engagement on Social Spending that was meant to increase the support that IMF gives to national policies on social protection, health and education. In a recent paper published by the Global Coalition for Social protection Floors, Barry Herman examines the two interim guidance papers that IMF gives its staff when they go on country missions: one on social safety nets (SSNs) and the other on public pensions and social security.[1] While some positive aspects are noted, there are also concerns. For example, while the Fund judges that it is not legally bound by international human rights obligations, staff should be aware that most member countries have accepted them, e.g., ratified the International Covenant on Economic, Social and Cultural Rights (UN 1967)) and/or included them in their national constitutions. The guidance note should advise staff, it is argued, that there are internationally endorsed Guiding Principles on Human Rights Impact Assessments of Economic Reforms (UN 2019) as well as a near universally endorsed ILO social protection floor recommendation 202 (ILO 2012).

Do you agree that in assessing "adequacy" of social spending in a country, the Fund should take into account which international norms and standards that the country has committed to?

It is also noted in the paper, and documented by e.g. Human Rights Watch, that while the Fund is formally open to countries adopting universal social safety net programs, in reality it encourages targeted programs.

Adding to earlier research on the risks and drawbacks of poverty targeted social protection programs, and the report An affordable and feasible pathway to universal social security which challenges the standard argument that "universal social security is simply not affordable in poor countries", we would like to draw your attention to our most recent report: Taking stock of progress: A compilation of universal or benefit-tested social security programmes in low- and middle-income countries. In this paper we have identified 88 social programmes in 52 low- and middle-income countries that are universal or benefit-tested. Importantly, almost all of these universal schemes have been designed, implemented, and financed exclusively by national governments, without support from development partners. Our report does not prove that low- and middle-income countries can afford universal programmes, but it shows that it should not be assumed that they cannot do so. We also note that the IMF acknowledges the need and potential to increase tax revenues in LIC and MIC.

The two papers mentioned above were presented at a Chatham House style "knowledge exchange on emerging topics" in early February 2024, organised by The Working Group on Financing under USP2030 – the global platform on social protection, co-chaired by ILO and the World Bank. This initial dialogue, in which representatives from both IMF and the World Bank participated actively, lays the ground for a roundtable discussion about this issue with the Nordic-Baltic constituency, as discussed earlier.

Questions:

- *Are you willing to question the IMF practice of encouraging targeted rather than universal and rights-based social spending, given the higher likelihood that universal social benefits are more sustainably financed by national resources, and the IMF assessment of the potential to increase tax revenues in LIC and MIC?*

- *Are you willing to initiate the proposed roundtable meeting on the role of the IMF and the World Bank in promoting universal social protection? When could such a meeting take place?*

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[1] "IMF Engagement on Pension Issues in Surveillance and Program Work," 15 June 2022 (https://www.elibrary.imf.org/view/journals/005/2022/004/005.2022.issue-004-en.xml); "IMF Engagement on Social Safety Net Issues in Surveillance and Program Work" 3 October 2022 (https://www.imf.org/en/Publications/TNM/Issues/2022/10/03/IMF-Engagement-on-Social-Safety-Net-Issues-in-Surveillance-and-Program-Work-524087?cid=em-COM-456-45461)

Implementation of IMF's Strategy towards Mainstreaming Gender

In 2022, the executive board of the IMF adopted its first-ever strategy towards mainstreaming gender within its work streams.

In January 2024, an interim note providing general guidance on the operationalisation of the strategy was released – a full implementation guidance note will follow in 2025. The guidance note includes an overview of how IMF staff can integrate macro-critical gender issues into the IMF's core areas of surveillance, lending, and capacity development. Key topics include identifying and assessing macro-critical gender gaps and early insights on integrating gender into IMF-supported programs, as well as capacity development of IMF staff on gender.

Questions:

- *What are your insights into how the guidance note has been received and how the implementation of the gender strategy is going, including for example capacity building of staff and integrating gender into policy dialogues with member countries?*
- *IMF piloted the strategy in ten countries, how are the results and what challenges in the implementation stood out?*
- *The guidance note also stipulates that discussions on macro-critical gender issues should be held with ministries of finance and central banks and ministries that deal directly with gender issues. Has this been done and what has been the outcome?*

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Norwegian Church Aid

The Kvinna till Kvinna Foundation

Estonian Roundtable for Development Cooperation (AKÜ)

Lithuanian NGDO platform

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