IMF Spring Meetings 2022 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 2022 spring meetings.

As we are deeply worried by the rapid increase of inequality during the pandemic, we warmly welcome IMF's clear messaging about the risks of inequality. We also appreciate that the IMF and its staff are repeatedly highlighting the potential to introduce and sharpen policies that will address inequalities[1]. IMF certainly talks the talk in this regard. Given this situation, we look forward to hearing your views on the following questions: *Do you see these messages on inequality being followed up by policy initiatives and concrete actions? Are you and your offices taking any initiatives to that end?*

Debt and G20 Common Framework

We are very happy that the IMF has played a constructive role in calling for substantial debt relief and improvements to existing initiatives, such as the G20 Common Framework for Debt Treatments Beyond the DSSI (CF), with the aim to solve the unfolding debt crises in many developing countries. At the moment the Common Framework is falling short particularly in one crucial aspect: Lack of mechanisms for the sanctioning of non-participating private lenders to borrowing countries in debt distress. Our colleague Tim Jones of the Jubilee Debt Campaign UK has made the following analysis and policy proposals to remedy this shortcoming, that we endorse:

The G20 and IMF could build on the lending into arrears policy to make the Common Framework more effective by clarifying that the Common Framework process would include the following steps:

1. The IMF Debt Sustainability Analysis says how much debt restructuring is needed to reduce the debt risk to at least moderate, with space to absorb shocks.
2. The debtor seeks to negotiate this level of restructuring with all its bilateral and private creditors.
3. If any creditor do not agree to the restructuring, willing creditors should still implement the restructuring, and the IMF should agree any loan programme, but only if the debtor agrees to default (or remain in default) on recalcitrant creditors until they agree to the restructuring deal.

[1] See for example this video https://twitter.com/IMFNews/status/1493004559022649345 and a number of articles and blogs: Giving Everyone a Fair Shot – IMF Blog, Global Inequalities (imf.org), Understanding the Social State (imf.org), A Fine Balancing Act (imf.org), Adding Ethics to Public Finance (imf.org), Tackling Inequality on All Fronts (imf.org)

4. The IMF and willing creditors should publicly make it clear that the reason for the selective default is the unwillingness of recalcitrant creditors to agree a necessary debt restructuring, and that the debtor negotiated in good faith.

If the IMF and G20 agreed to this process publicly, based in the IMF lending into arrears policy, it would mean that all creditors are more likely to agree the necessary restructuring in the first place. By making it clear that the consequence for them of not agreeing a deal is default, and a default which can be sustained because the debtor is getting financial and political support from elsewhere, it means they are more likely to agree the deal in the first place. Adopting the policy as set out above would make the restructuring process quicker and extended defaults less likely.

Such a strengthening of the Common Framework would be an important step given the current circumstances. We however also underline that the need to strengthen the effectiveness for the CF should not deter from working towards a broader structural reform of the international debt architecture. This broader reform should also include the permanent establishment of a multilateral sovereign debt resolution mechanism that, under the auspices of an independent body such as the UN, offers comprehensive, timely, transparent, durable, rules-based and fair debt solutions to all countries experiencing debt distress.

Debt Relief Ukraine

Ukraine is set to repay over 7 billion dollars in the year 2022 in foreign debt. At the same time Western governments are trying to support Ukraine with hundreds of millions euros and dollars per country through humanitarian and military aid. But to have a more strategic view on helping Ukraine in a long term perspective, during and after the ongoing war, the West should look at the possibility to cancel or relieve the foreign debt of Ukraine.

Ukraine's situation is a result of a full scale Russian invasion into an independent country's territory. The state cannot afford its debt repayments any longer as Ukraine's economy is destabilized as a result of the military campaign, increased spending on the military and having to deal with the consequences of war. JDC, in collaboration with Sotsialniy Rukh have launched a campaign on that matter. Presently Ukrainians are unable to work and earn, they are losing their homes, economy, and property. Moreover, the military occupation campaign of the Russian Federation is destroying sites and enterprises of strategic and critical infrastructure, transportation arteries and the economic potential of the country as all possible resources are mobilized to support the campaign of military defense.

Ukrainian debt situation in numbers: presently Ukraine's foreign debt stands at $125 billion. The debt servicing expenditure for 2022 is expected to be circa $7 billion. That is approximately 12% of all state budgetary expenditure. **The IMF component of the above sum is $2.7 billion.** That is equivalent to 16.5 million average pension payments in Ukraine.

Deciding positively on debt relief could, in a short term scale, help Ukraine during the military invasion to protect its civilians, provide housing for the displaced persons and medication for the wounded. Such a move would also be beneficial in a long term way both to Ukraine and /Western countries as it would allow the reconstruction of Ukraine's economy. A potential debt relief for Ukraine should come as part of a structural change ensuring an automatic mechanism in the face of catastrophic events, such as natural disasters, pandemics or invasion. Such a mechanism should entail an automatic moratorium in the face of catastrophic events followed by a structured process for the renegotiation of terms and conditions of sovereign debt, with the aim of bringing the debt down to a level where it can be serviced over time with room for investments in sustainable growth and the financing of universal welfare benefits for all citizens.

Direct long term benefits of debt relief in Ukraine:

- It would facilitate reconstruction of the strategic and infrastructure enterprises destroyed as a result of the military action.
- It would halt austerity in the social sphere and would allow, with time, to rebuild functionality and quality of the social services and allow their workers make a decent living.
- It would establish justice in relations with the Western world and Ukraine, and would become yet another meaningful act of support.

Austerity & Financial Space for Social Protection

In order to recover from the pandemic, build social and economic resilience and promote future growth, investments in social protection must increase significantly in low- and middle-income countries that are heavily impacted by the pandemic. Austerity measures should be avoided. In previous letters, we have raised the concern that despite a significant change at policy level (see references in the introductory part of this letter), IMF still promotes austerity in its policy recommendations. The studies by Eurodad, Oxfam and Action Aid that we have referred to reveal that there is still a significant gap between IMF policy and practice. Today, we again reiterate the same concern, by drawing your attention to the recent study by ILO, Social policy advice to countries from the International Monetary Fund during the COVID-19 crisis: Continuity and change (ILO Working Paper 42), which to a large degree confirms the findings of the reports mentioned above.

The ILO report is based on an analysis of recurrent policy recommendations made in 148 publicly available reports for programmes or Article IV consultations in 2020. The authors find that the IMF has indeed supported increased expenditure on health care and social protection even when it meant higher fiscal deficit and public debt. However, they also find that the IMF has supported fiscal consolidation and reduction of public debt even more frequently, in 129 of the 148 reports examined. Recommended measures include i.a. increased targeting of subsidies and social programmes; cuts to the public sector wage bill; and increased fees for public services. On the revenue side, the IMF recommended raising tax revenues from indirect taxes, such as through a value added tax, which tends to be regressive, far more frequently than more increasing progressive direct taxes.

The IMF recommendation that all cash transfer programmes extended during the pandemic should be temporary counteracts efforts to build social protection floors. The combination of increased targeting of social protection – which IMF staff consistently recommend – and increased value-added tax, is deeply concerning from an equality perspective. In the draft

Inter-Agency Task Force Report on Financing for Development it is noted that “By increasing goods and services taxes, like value added taxes, the poor would help finance social protection, but the poor may not be eligible for social protection benefits if programmes are not properly designed. *Universal coverage is instrumental*, and analysis of the net redistributive effect is recommended to ensure inequality reduction when using these types of taxes” (p.56, emphasis added).

In the ILO report, it is also noted that “just as social protection policies need enabling fiscal and macroeconomic policies, so too macroeconomic performance is contingent on adequate investments in social protection systems that can support people’s life and work transitions and facilitate structural transformations of the economy”. In that context, it is also argued that the IMF has an important role in ascertaining whether social spending floors are set at a sufficiently high level to enable countries to build universal social protection systems, including social protection floors.

From the above, it is clear for us that IMF is still far from walking the walk when it comes to promoting policies that will reduce inequality and promote investments in social protection floors. *We look forward to hearing your views on this, and how you and the Board can promote change in that direction.*

IMF Climate Strategy

The IMF climate strategy published in June 2021 is a welcome initiative. There, the IMF highlights that climate change will have severe impacts on macro-economic and financial stability and that the effects of climate change are already prevalent on social costs across economies. The strategy raises an ambition to address climate change as part of IMF’s policy advice and surveillance. The focus lies heavily on transition risks and aims to identify these risks in countries as part of the surveillance. It further raises that there is a knowledge and capacity (in terms of staffing) gap within the organization in this area.

Climate change and the loss of biodiversity pose the greatest threats to human security, development and the health of our shared planet. These crises have been caused and are driven by the global economic fossil fuel dependent system, of which a small elite has benefitted: a system where externalities have not been included and that has resulted in today’s huge economic inequalities. The Covid-19 pandemic caused devastating effects on health and poverty across the world and disrupted global supply chains. We saw the largest ever decline of carbon dioxide emissions (5.8% in 2020) and finance ministers across the world spoke enthusiastically about a green recovery. However little of that has been seen, when the economy was catching up so were the emissions. The IEA reported on March 8, 2022 that energy related emissions now have more than bounced back and are record high, driven by an increased use of coal. Our dependence on fossil fuels for economic growth brings devastating effects for people, the planet and spur political instabilities, where Putin’s invasion of Ukraine is the latest example.

The IMF is not an environmental nor climate organization but it is now clear that an organization cannot deal with finance and economic development without also addressing climate change. This interconnectedness was recognized by the IMF managing director in October 2020 “The evidence is clear: Climate change is a profound threat to growth and prosperity. It is macro-critical. And macroeconomic policies are central to fight against climate change". (Reuters, October 12, 2020). IMF has for many years supported extractive economies and expansion of fossil fuel infrastructure as Action Aid points out in the report *Reforming Global Finance To Support A Just Energy Transition: Implications For IMF Policy Advice*. The organization must therefore do a profound review of its policies and processes, that so far have supported the current environmentally unsustainable production and consumption system. If the IMF wants to be a serious agent for change in the energy and climate transition it must make sure that its policy advice does not contribute to economic growth at the expense of the environment but supports a just transition.

The latest IPCC report WGIII once again pointed out that time is scarce and that global emissions must peak before 2025 to stay within the 1.5 C target. Policies implemented (by the end of 2020) do not keep us within this target but lead to a median global warming of 3.2C, hence, strengthening of policies is vital to limit global warming.The IMF is in a unique position to influence monetary policy and fiscal policy across the world, and therefore has the potential to achieve real impact. The IMF should aim to be part of *driving the transition* by identifying opportunities that come with the renewable energy transition. As pointed out in the strategy, extractive based economies are highly vulnerable to a decline in fossil fuel demand and prices. Regrettably, IMF has in many cases been part of creating this fossil fuel lock in. It should therefore be a top priority for the IMF to assist these countries in diversifying their economies and moving to a renewable energy system. Mitigation policies should mainly target the big polluters. We recommend the IMF to quantitatively inform its policies based on the 1.5 C scenario (rather than the well below 2 C). A key priority must be to move away from fossil fuel subsidies and follow the polluter pays principle. However, it is important that carbon prices on the demand side do not hurt low-income households. While carbon prices on the supply side must go hand in hand with policies and projects that support a transition to green jobs. We encourage the IMF to continue its focus on energy to achieve SDG 7, but to shift from fossil fuels and support renewable energy technologies with the establishment of local markets.

Climate change is a broad issue impacting everything from poverty, gender equality to infrastructure. In order to design resilient social protection systems and make the right decisions for public spending in low income countries, focus should lie on identifying necessary adaptation measures, future Loss & Damage and opportunities related to the transition.

Finally, the climate strategy does not state anything on climate justice or a just transition. We urge the IMF to address and define this and incorporate it in all climate and energy policy advice. It is critical that the groups that will be (and are) worst affected by climate change are part of the solution and at the decision table (as pointed out in the latest WGII IPCC report), this includes i.a. indigenous people, local communities, women and youth.

Special Drawing Rights

We have welcomed the issuance of Special Drawing Rights in August 2021. Once the new SDRs are allocated in Central Banks of IMF members, decisions on rechannelling will be taken at national level. Some of the organizations signing this letter have tried to find out what plans there are in their respective countries, with limited results. Likewise, we have received little response to our calls for substantive rechanneling of national allocations, and to our recommendations that rechanneling of SDRs should ensure debt free financing and be free of conditionalities other than those ensuring transparency and accountability. We see an important potential in coordinated Nordic-Baltic action in this context, and look forward to hearing your views on this.

In the finalization of the Resilience and Sustainability Trust (RST) we ask you to[2]:

- Avoid the use of economic policy conditionality, particularly those focused on fiscal consolidation and on enhancing the role of the private sector in public services delivery. The principle of country ownership should be the basis for the design and functioning of the RST.
- Adopt a 'do no harm' approach in the design of RST programmes, relying on systematic use of ex-ante impact assessments to prevent suggested reforms from negatively impacting on human rights, gender and economic inequality. The IMF usually argues that these medium-term objectives cannot be accounted for in loan programmes because the latter are meant to tackle short-term imbalances in the balance of payment and in a country's finance. This argument cannot be applied to the RST, which is designed for developmental impact.
- Design of RST programmes should rely on meaningful consultation with a wide range of stakeholders, including civil society organizations, trade unions and women's rights organizations.

SLUG Debt Justice Norway

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People Change the World Diakonia

NORWEGIAN COUNCIL FOR AFRICA

KIRKENS NØDHJELP actalliance

Norwegian Forum for Development and Environment

[2] ref: https://www.eurodad.org/resilience_and_sustainability_trust_not_silver_bullet_covid19_climate_change?utm_campaign=newsletter_27_01_2022&utm_medium=email&utm_source=eurodad

Swedish Society for Nature Conservation

KVINNA KVINNA

SNSP Somali Norwegian Strategic Partners

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