

IMF Annual 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 annual meetings.

We are greatly concerned with the global state of affairs. The great majority of the world's countries are struggling amid multiple historic, overlapping, and generally worsening crises: climate disasters; pandemics; food, energy and cost-of-living crises; and sovereign debt burdens snowballing out of control. These multiple crises intersect. While we raise to your attention several different topics, we want to emphasize their interconnectedness. As a basic principle, attempts to solve one issue should always be informed by its effects on the others.

Debt and private creditors

In its current form, the G20s Common Framework (CF) delivers neither fair nor timely solutions to sovereign debt crises. We are happy that the IMF has called attention to this, as well as the Nordic-Baltic countries in their IMFC statement during the 2022 Spring Meetings. Looking at the CFs first cases makes clear the need for substantial reforms in order to ensure effectiveness and cooperation of all types of creditors. Of external debt payments by governments in the global south between 2022 and 2028, 65% are to private lenders, 20% to multilateral institutions and 15% to other governments.¹ Establishing mechanisms that guarantee private creditor participation is therefore key.

During the spring meetings, a [consensus](#) emerged within the IMF and WBG on four necessary improvements to the CF: (i) quicker and more efficient processes through detailed steps and timelines; (ii) a debt moratorium to support debtor countries throughout negotiations; (iii) clarity as to how comparability of treatment shall be guaranteed and enforced; and (iv) the expansion of coordinated debt treatments to non-DSSI eligible countries with debt vulnerabilities. **In general, we welcome these improvements.** Ensuring private creditor participation is important to all four.

We reiterate our concern from previous letters that the CF is falling short particularly in this crucial aspect: Lack of mechanisms for the sanctioning of non-participating private lenders to borrowing countries in debt distress. We believe neither greater methodological clarity nor including private creditors earlier in the process will be enough to guarantee compliance from private lenders.² First, because the missing incentive to

¹ Calculated from World Bank International Debt Statistics database.

² Rivetti, Diego. "Achieving Comparability of Treatment under the G20's Common Framework", *World Bank Group*, 2022,

participate is hardly related with the lack of clarity about what comparable treatment actually means. Second, because neither gives debtors new tools with which to negotiate with private lenders. Private lenders' primary goal is to maximize their financial recovery. Therefore, the main way debtor governments can ensure their participation in debt restructurings is to default or threaten to default. Only measures that address the current power imbalance between private lenders and debtor countries will have a shot of making the CF work. Supporting debtors that default on obstructing creditors, both financially and politically, could bring private lenders to the table, thus ensuring cooperation of all creditors and comparability of treatment.

However, we emphasize that the need to strengthen the effectiveness of CF should not deter from working towards a broader structural reform of the international debt architecture. Such a reform should 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.

Questions to the ED:

- *If any, what measures are the ED considering to ensure comparability of treatment and private creditor participation in debt restructurings under the G20 Common Framework?*
- *More broadly, what does the ED consider to be the key challenges to making the four improvements a reality?*

Surcharges

To encourage early repayment, the IMF levies surcharges on large outstanding, non-concessional loans. However, as Joseph Stiglitz has observed, “surcharges are going exactly against what [the IMF is] supposed to be doing. It's supposed to be helping countries... not extracting extra rents from them because of their dire need”.³ As a growing number of countries struggle to tackle the multiple global crises, it is unacceptable for the Fund to profit from it.⁴

The IMF argues that surcharges strengthen its financial capacity, but this income is not necessary to keep IMF resources at the level mandated by the Board. Even though surcharges constitute 41% of IMF income, the Fund would still have positive results should they cease to apply. Furthermore, studies show that they do not speed up repayments.⁵ Therefore, we argue that the policy of surcharges is unnecessary. Its negative effects are, on the other hand, devastating:

<https://documents1.worldbank.org/curated/en/426641645456786855/pdf/Achieving-Comparability-of-Treatment-under-the-G20-s-Common-Framework.pdf>.

³ Elliot, Simon. “IMF Surcharges: ‘Regressive’ and ‘Bad News for the World Economy’”, CEPR, 2021 <https://cepr.net/imf-surcharges-regressive-and-bad-news-for-the-world-economy/>.

⁴ Since the pandemic began, the number of developing countries facing surcharges has risen from 9 to 16. By 2025, the IMF projects that that number will increase to 38.

⁵ Bohoslavsky, Juan Pablo, et al. “IMF’s Surcharges as a Threat to the Right to Development.” *Development*, 2022.

- Surcharges directly affect potential growth and reduce public investment in social sectors such as education, public health and development. For example, Egypt will spend \$1.8 billion on surcharges from 2019 to 2024, equivalent to three times the amount it would have to spend to fully vaccinate every Egyptian against COVID-19. In Tunisia and Pakistan, surcharges add up to roughly a third of their entire health-sector fiscal efforts during the pandemic.⁶
- Surcharges undermine the borrower states' ability to respect, protect and fulfill its human rights obligations.⁷ Human rights should not be undermined due to international financial institutions' terms of transactions, as underscored by the UN independent expert on foreign debt and human rights.

For developing countries already suffering from severe economic difficulties, surcharges place an additional, unfair burden. In addition, they are pro-cyclical: Surcharges increase as a crisis unfolds.⁸

We also want to address the lack of transparency. Governments aren't always fully aware of the existence of surcharges, and they are hidden from public scrutiny, as the IMF doesn't identify them in their staff reports or their publicly available financial statements.

In sum, we see the policy of surcharges as unnecessary, self-defeating and in violation of the Fund's core mission of providing temporary funding for countries "without resorting to measures destructive of national or international prosperity". **We therefore call on the IMF's Executive Board to eliminate the policy of surcharges. Until that is done, we strongly urge you to ensure transparency around past and future surcharge payments.**

Gender strategy

We welcome the new (and first ever) IMF Gender Strategy, the fact that it is a mainstreaming strategy applied to all IMF core activities and that it acknowledges how economic and financial policies can exacerbate "gender gaps". We would like to point to a few steps that are crucial to push for in the implementation of the strategy:

- We regret that the Strategy consistently refers to 'gender gaps' rather than 'gender equality', 'women's rights', or structural change. We hope to see in the Guidance Notes a stronger transformative approach centered around human and planetary well-being and freedom, where women can enjoy their full range of human rights. We propose that you argue for the use of "gender equality" rather than "gender gap".

⁶ Debt GWA. "Eliminate IMF surcharges immediately!", 2022, https://debtgwa.net/statements/eliminate-imf-surcharges-immediately?utm_source=emailmarketing&utm_medium=email&utm_campaign=bretton_woods_news_lens_14_april_2022&utm_content=2022-04-14.

⁷ Li, Yuefen: "Effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights", *UN General Assembly*, 2021.

⁸ Stiglitz, Joseph E., and Kevin P. Gallagher. "Understanding the Consequences of IMF Surcharges: The Need for Reform." *Global Development Policy Center*, Oct. 2021, <https://www.bu.edu/gdp/2021/10/04/understanding-the-consequences-of-imf-surcharges-the-need-for-reform/>.

- The Staff Guidance Note needs to be concrete in actions but also in resourcing in order to make sure the Strategy will be fully implemented. We also request an open consultation process to be able to comment on the drafting of the Guidance Notes as these are imperative to a start of the gender mainstreaming work.
- There is a high correlation between gender equality and peaceful societies. We cannot work on stability and security without simultaneously prioritizing work on gender equality. Gender equality and the realization of women's rights stabilize societies and prevent conflicts. Conflict and fragility have a disproportionate impact on women's and girls' rights and exacerbate gender inequalities, while gender-based violence increases. Forced displacement further aggravates gender inequalities. The IMF recognises fragility as macro-critical. The Gender Strategy has one paragraph on fragile states which promotes female labor force participation to strengthen resilience in society. In addition, we argue that women's housing, land and property rights are critical and intersect with security, economic justice, and participation. Women's rights should be included in post-conflict reforms as well as in recovery programmes and budgets allocated to improve gender equality. Gendered conflict analysis needs to be strengthened in the Guidance Note. We also would like to see that the Gender Strategy and IMF's new Strategy on Fragile and Conflict-affected States (March 2022) do not work in silos but are well connected in implementation.
- The current shrinking of civic space, particularly for women's organizations and human rights defenders, is seriously undermining democracy in many regions of the world. We see that international financial institutions can play an important role in supporting democratic development through dialogues on national and regional levels. The IMF could potentially play a significant role by engaging and consulting CSOs in the agreement processes with governments. This is particularly relevant as several bilateral donors share that the shrinking space is influencing their choices and affects direct contribution to CSOs.⁹
- The Strategy opens up for an intersectional analysis, highlighting the connections between for example gender (in)equality, conflict, and climate. It does not, however, specify how these intersectional analyses will play out in practice. The fact that climate change affects vulnerable groups, including women, differently and to a greater extent than men is crucial to include in any analysis and assessment, as well as the fact that 40% of intrastate conflicts during the past 60 years have been linked to natural resources.¹⁰
- We welcome the recognition of the crucial role of social protection in promoting gender equality (and would add reduced gender-based violence¹¹ as one of the important effects of cash transfer, p. 27). At the same time, however, we are concerned that "better targeted social spending" is suggested as a way of compensating for negative effects of policy changes, e.g. if the burden of macroeconomic adjustment falls disproportionately on women. There is strong evidence that poverty-targeted social programs exclude large proportions of the

⁹ Knoote, Floor. "Maintaining a Role for Women's Organizations in International Development Finance", 2019, <https://kvinnatillkvinna.org/publications/maintaining-a-role-for-womens-organizations-in-international-development-finance/>.

¹⁰ Matthew, Richard, et. al. "From Conflict to Peacebuilding: The role of natural resources and the environment", IISD, 2009, <https://www.iisd.org/publications/conflict-peacebuilding-role-natural-resources-and-environment>.

¹¹ Act Church of Sweden and Kvinna till Kvinna Foundation. "Social protection and gender equality", 2022, <https://www.svenskakyrkan.se/filer/578537/Social%20protection%20and%20gender%20equality%20Ktk%20Act%20CoS.pdf?id=2424835>.

intended target groups. Universal benefits, on the other hand, in particular child benefits, pensions and disability benefits, leave very few behind, benefit women and girls and are possible to expand and finance gradually.¹²

- To the analysis of the role of discriminatory law, in particular family law (p. 35) we would like to add that in many countries, family relations are regulated by religious family law and handled by religious courts. This gives religious leaders and institutions power over issues, such as legal age of marriage, the right to freely enter marriage and choose a spouse, marital rape, divorce, custody of children, inheritance laws – which all are crucial for the fulfilment of women's and girls' rights and women's participation in society and the labour market. In other countries, secular family law is heavily influenced by religious norms and actors. This may for instance occur through consultation in legislative processes, strong public opinion, or political pressure.
- Last but not least, the Strategy emphasizes the need for the IMF to collaborate on this topic with external actors. However, the women's movement and women's rights organizations are the last ones to be mentioned – while we strongly believe they are crucial to make change happen. The women's rights movement should be considered as the “main and natural partner” and be consulted as the experts they are when building capacity within the IMF.

Climate

There is a huge need for financing mitigation and adaptation to climate change and other external shocks, such as the pandemic. The IMF Resilience and Sustainability Trust (RST) is therefore a welcome initiative to help low-income and vulnerable middle-income countries by providing longer-term financing to address longer-term challenges. However, there are concerns that the trust can have negative impacts on sustainable development as a whole and not support progress across the Sustainable Development Goals. To meet the mandate of addressing longer-term challenges, without negative impacts on other areas, we present the following recommendations:

- **Climate finance should be new and additional to existing international financial commitments such as ODA.** The climate financing going to low-income and vulnerable middle-income countries, should be non-debt creating and without conditions. Climate financing should be in the form of grants. Any loans given as climate finance should only be in highly concessional terms. The RST will be funded by rich countries' unused SDRs. Countries should ensure that SDRs contributions are additional to existing ODA and climate finance commitments.
- There are also risks that countries, already dealing with crises, can be locked into multiple frameworks of conditionality. **Strong country ownership and citizen participation is crucial for building a social contract, tackling inequality and secure a just green transition.**

¹² Stephen Kidd and Diloá Athias, 2020. Hit and Miss: An assessment of targeting effectiveness in social protection Summary version with updated analysis Development Pathways and Act Church of Sweden, Working paper: June 2020; Forthcoming paper on progressive implementation of universal tax-financed social protection.

- Protecting the world's remaining intact ecosystems, such as large contiguous tropical rainforests, coral reefs and other biodiverse and productive areas is key if we are to succeed in addressing the current climatic, environmental and health crises, and deliver on international commitments including the Sustainable Development Goals. **In the efforts to mitigate climate change, the IMF should ensure that the trust, at the very least, does not contribute to destruction of nature and biodiversity.**
- The IMF must ensure policy coherence and ensure that its policy advice does not contribute to economic growth at the expense of the environment but supports a just transition. The IMF [climate strategy policy paper](#) published in 2021 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. However, a [review](#) of all Article IV reports conducted by the IMF since the signing of the Paris Agreement (between December 2015 and March 2021) commissioned by ActionAid and the Bretton Woods Project showed that in 105 member countries, the IMF's policy advice endorsed, or directly supported, the expansion of fossil fuel infrastructure. 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. The IMF should aim to be a part of driving the transition. We recommend the IMF to quantitatively inform its policies based on the 1.5 C scenario (rather than the well below 2 C) and shift from fossil fuels, move away from fossil fuels subsidies, follow the polluter pays principle and support renewable energy technologies with the establishment of local markets.

Question for the ED:

- *How will the IMF implement the climate strategy policy paper?*
- *Will there be any changes in the Funds policy advice regarding fossil fuels in light of the climate strategy?*
- *How will the IMF secure that the RST does not have unintended negative consequences on other areas, such as nature and biodiversity?*

Social protection

In May this year, the Global Coalition for Social Protection Floors working group on the Bretton Woods Institutions had the opportunity to read and comment on a draft background paper on *IMF Engagement on Social Safety Net Issues in Surveillance and Program Work*.¹³ Our main concern were that:

- “Social Safety Nets” (SSNs) must be situated in the broader context of other social spending. There are many different but overlapping definitions and concepts (social protection/social security/safety nets, etc) with a number of different objectives, reflecting different policy contexts. Therefore, it is important that the IMF is open to

¹³ The comments are not posted online, but attached to this letter.

the concepts and objectives chosen in different countries and does not impose its version on countries.

- In order to base IMF's assessment on a good understanding of the specific objectives and the social programs that it assesses, it is important to engage in dialogue with governments at an early stage.
- *Adequacy* is an important criteria, but the IMF does not have the mandate or expertise to assess it - here, the IMF should seek advice from expert organizations, in particular ILO.
- While we recognise and welcome that the IMF describes not only benefits, but also the costs, of targeting, we strongly challenge its emphasis on poverty targeted programs. There are many examples showing that the financing of universal (= not means-tested) benefits are in general more sustainable than financing of poverty-targeted programs. This is an aspect that the IMF should pay a lot of attention to.
- If SSNs are seen in a broader context of social protection, including its financing through contributions and taxes, the IMF's repeated concerns for the "leakage" to the non-poor in universal programs could be taken care of through taxes that recapture universal benefits that are given to the non-poor.
- Gender aspects should be integrated throughout the paper.

Of course, we appreciate very much the opportunity to give input to the drafting team. However, we have not yet received feedback from the IMF on the degree to which our concerns have been taken into account. **We would therefore appreciate any information you have on the further process of finalization and dissemination of the paper.**

In June this year, Act Church of Sweden met with the ED Advisers at the Nordic-Baltic IMF and World Bank offices who have social protection in their portfolios. We are very grateful for this opportunity and hope that the dialogue will continue. Later this fall, Act Church of Sweden will publish an analysis and critique of the World Bank's approach to progressive realization of universal social protection ("progressive universalism"), along with technical papers on the feasibility to implement universal programmes gradually and in a financially sustainable way. **We look forward to sharing the result of these studies with you and/or your advisers, and their colleagues in Capitals, at an exclusive webinar as discussed in June.**

Debt Justice Norway

Swedish Society for Nature Conservation

Norwegian Forum for Development and Environment

Diakonia Sweden

Lithuanian Development Cooperation Platform

Act Church of Sweden

Save the Children Norway

The Norwegian Solidarity Committee for Latin-America

Norwegian Church Aid

The Kvinna till Kvinna Foundation

