IMF Spring 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 spring meetings.

Improving the IMF and World Bank's Debt Sustainability Framework for Low-Income Countries

The World Bank and IMF's debt sustainability analyses produced according to the LIC-DSF[1] are technical documents with huge political significance. They affect the nature (loans vs. grants) and sometimes quantity of the funding that low-income countries get from the IMF, World Bank and some other aid agencies. They affect private creditors' risk perception. They also determine whether the IMF requires a debt restructuring as a condition for a loan, and anchor negotiations about the amount of debt relief that borrowers get if they apply for it.

Because of their political significance, debt sustainability analyses are susceptible to influence by the IMF and World Bank's boards, which are controlled by creditors. Creditors' control over debt sustainability analyses constitutes a conflict of interest that compromises the credibility of these analyses, no matter how well the analytical framework is improved. We therefore also make recommendations to improve the governance of the LIC-DSF. For the purpose of debt restructurings, debt sustainability analyses must be conducted independently from both the debtor and its creditors, and hence from the IMF and World Bank. The staff's analytical work must be insulated from the board's political interference and transparency of the LIC-DSF must be further increased to make political interference more difficult to hide.

As technical documents, we appreciate the periodical reviews of the methodology that underpins debt sustainability analyses, and the opportunity to give input into these reviews. Our detailed recommendations are:

Debt sustainability definition

<u>Recommendation 1:</u> *The LIC-DSF must adopt a quantitative definition of debt sustainability, which must be published, and which must be applied in debt sustainability analyses produced in the context of an IMF programme. This quantitative definition must be consistent with the current qualitative definition, which emphasizes both a feasible adjustment in the fiscal balance and acceptable progress on development goals. Two key variables to assess debt sustainability could be the estimated maximum primary fiscal balance and change in primary fiscal balance compatible with economic recovery comparable with peers in the medium term.*

The IMF defines debt sustainability as a *"high likelihood that a country will be able to meet all its current and future financial obligations[, which implies] that the debt level and debt service profile are such that the policies needed for debt stabilization under both the baseline and realistic shock scenarios are politically feasible and socially acceptable, and consistent with preserving growth at a satisfactory level while making adequate progress towards the*

[1] https://www.worldbank.org/en/programs/debt-toolkit/dsa

authorities' development goals."[2] Although the LIC-DSF includes "mechanical" (i.e., quantitative) signals to determine the level of risk (low, moderate, high), whether debt is sustainable or not is a matter of judgement. As the definition suggests, this judgement call is as much a matter of political analysis, as of economic analysis.

Whether the IMF calls a debt unsustainable is therefore ultimately a political decision under the current LIC-DSF. As such, it is susceptible to political pressures from its shareholders who are mainly creditors. That matters because the IMF has a policy of not lending into unsustainable debt situations unless a debt restructuring takes place (or additional grants or concessional loans are provided) during the IMF programme in such a way as to make the debt sustainable. It is an important policy that is meant to prevent IMF resources from bailing out existing creditors, lengthening debt crises, and pushing the eventual costs of debt restructurings onto multilateral lenders, which is what happened in the debt crises of the 1980s and 1990s. Leaving too much political discretion into the definition of unsustainability heightens the risk of restructuring the debt "too little, too late".[3]

The alternative framework that the IMF uses for "market access countries" (the Sovereign Risk and Debt Sustainability Framework or SRDSF) does incorporate a quantitative definition of debt sustainability, which is complemented by judgement. However, it focuses on the first part of the IMF's definition: ability to pay back the debt. Some governments have in the past managed to pay back their debt only at the cost of deep and prolonged austerity that depressed their economic growth and development over a decade or more. Such situations do not fit the sustainability definition. The IMF and World Bank ought to estimate the maximum primary fiscal balance and change in primary fiscal balance compatible with economic recovery sufficient to catch up economic growth on par with peers (i.e., countries of similar development levels in the same region) in the medium term.

Debt restructuring goal

Recommendation 2 The LIC-DSF must state that any debt restructuring must bring both external and public debt down to at most "moderate risk of debt distress with substantial space to absorb shocks" by the end of the IMF programme and remain below that level every year through the rest of the ten-year time frame of the analysis.

The IMF acknowledges that debt relief has been granted "too little, too late".[3] The current LIC-DSF and even the 2024 supplemental guidance are not categorical enough in setting an objective and quantitative goal for debt restructuring agreements. Most of the recent debt restructurings have lowered debt only just below the threshold for "high-risk of debt distress", such that countries could relapse into "high risk" after a single natural disaster or other shock.[4] Too little debt relief fails *"to re-establish debt sustainability and market access in a durable way".*[5] It leaves countries at risk of repeated restructurings and with a high cost of capital that blunts economic recovery. That discourages more low-income countries from applying for debt

---

[2] https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf (p.47)

[3] https://www.imfconnect.org/content/imf/en/annual-meetings/calendar/open/2022/10/11/167983.html?calendarCategory=T2ZmaWNpYWwvQnkgSW52aXRhdGlvbg==.UHJlc3M=.V29ybGQgQmFuaw==.T3Blbg==

https://www.elibrary.imf.org/display/book/9781513594477/9781513594477.xml?rskey=NCiZq9&result=1

https://cup.columbia.edu/book/too-little-too-late/9780231179263

[4] https://debtjustice.org.uk/press-release/private-lenders-to-make-14-billion-profit-after-debt-relief-deals

[5] https://www.imf.org/external/np/pp/eng/2013/042613.pdf

relief under the Common Framework despite the fact that over half of them are rated at "high risk of debt distress". Debt restructurings are politically and socially painful experiences, they must be made worth it. The LIC-DSF must not allow staff judgment to set both external and public debt targets above the "moderate risk of debt distress with substantial space to absorb shocks" by the end of the IMF programme and every year thereafter through the rest of the ten-year horizon.

Human rights and social protection[6]

<u>Recommendation 3</u>*: In addition to the baseline projection and stress tests, the LIC-DSF must include an "ambitious scenario" for all countries, where government spending is increased such as to achieve the Sustainable Development Goals (SDGs) or other UN benchmark for the progressive attainment of universal economic and social rights. The IMF must invest more resources into applying existing standardized methodologies to estimate the cost of each SDG in each country in consultation with the government and civil society (and can meanwhile use per capita estimates of countries of similar income level and region). The ambitious scenario must indicate how much additional concessional loans (until the debtor reaches the threshold for high-risk of debt distress) or additional grants or debt relief are needed to ensure debt sustainability. The LIC-DSF must let users customize both the spending and financing of the ambitious scenario.*

Under the current LIC-DSF, the baseline scenario is based on current policies, including both the current spending plan of the government and the inflows of external resources that are expected based on donors' plans. The IMF and World Bank consider that it is the borrowing government's responsibility to integrate the SDGs into its current spending plan. In practice, governments don't do it because they know that they can't finance more ambitious plans.

The ambitious scenario could be used as a fundraising tool, to encourage borrowing governments to develop national development plans showing donors what could be achieved with debt relief or additional grants and concessional loans. While governments could in theory do that unilaterally outside of the LIC-DSF, it requires expertise that they often lack and they face pressure from donors not to ask for too much. The IMF and World Bank, as members of the UN system and bound by international human rights law, should use their expertise to estimate the costs of SDGs (as methodologies exist but have been applied to only a handful of countries) and produce the ambitious scenario to give a strong signal to borrowing and donor governments alike that financing plans ought to be aligned with the SDGs. The ambitious scenario will help civil society to advocate for the borrowing government to indeed include the SDGs in its spending plans, which is what the IMF and World Bank say it should do anyway.

Borrowing governments could and should be more assertive and present ambitious spending plans to be integrated into the IMF's baseline projections, because it is their legal obligation under human rights treaties.

Social protection is an important example of the kind of investments that countries need to make to realise human rights and reach the SDGs, and which need to be taken into account in the LIC-DSF. The positive impact of social spending on economic growth and exports (including long-term positive impacts on productivity) must also 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."

---

[6] This section draws on https://library.fes.de/pdf-files/international/21247.pdf

We would also like to draw to your attention a recent critique of the cost estimates of the implementation of social protection floors in low- and middle-income countries which the ILO published last year. According to ILO, universal coverage would cost almost 20% of GNI in LIC, which is clearly unfeasible. According to Development Pathways, which challenges the ILO figures, the correct figure is more likely less than 4 percent.

Climate change

The Nordic countries are considered global leaders in the fight against climate change. We urge you to use that leverage to advocate for reforms within the IMF to ensure that its policies and programs support a just and sustainable climate transition. While the IMF has acknowledged climate change as a critical issue, its current approaches often undermine both climate resilience and mitigation efforts in vulnerable nations. Nordic countries have long championed social equity, transparency, and ambitious climate action. We call on you to uphold these principles at the IMF by promoting the following five key reforms:

1. Enhance transparency and stakeholder engagement

The IMF's Resilience and Sustainability Trust (RST) aims to provide long-term, affordable financing to address challenges like climate change. However, concerns have emerged regarding the transparency of RST-supported programs, particularly around the disclosure of policy conditions and monitoring mechanisms. Civil society organizations have warned that the IMF does not clearly distinguish RST reforms from traditional conditionalities, and that traditional IMF conditionalities may persist under the guise of green initiatives, potentially undermining genuine climate action. We urge you to:

- advocate for disclosure of RST program terms and conditionalities;
- advocate for systematic inclusion of civil society and local stakeholders in designing and implementing climate-related policy advice; and
- promote public reporting on how climate risks and goals are assessed in the IMF's country reviews and lending programs.

2. Reform austerity-based conditionalities to support climate justice

Some IMF programs still impose austerity-type measures—such as subsidy cuts and fiscal austerity measures—that can constrain public investment in climate resilience. For example, some studies have linked IMF loans to increased deforestation, particularly when reforms incentivize export-led growth or reduce environmental protections. We urge you to:

- oppose austerity measures in IMF programs that limit climate spending; and
- advocate within the IMF for the development of fiscal frameworks prioritizing public investment in climate change mitigation and adaptation.

3. Prioritize grant-based climate finance and integrate debt relief

Many climate-vulnerable countries face escalating debt burdens, limiting their capacity to invest in necessary climate measures. While the RST offers concessional financing, the

primary reliance on loans can divert a country's resources away from essential climate actions. Moreover, as discussed in the section above, the IMF's Debt Sustainability Analyses (DSAs) often overlook climate risks. We urge you to:

- advocate for increased grant-based financing in IMF-supported programs, particularly through the RST;
- support the reform of DSAs to incorporate climate risks, resilience needs, and equity considerations; and
- promote the establishment of a coordinated, transparent debt relief framework aligning with climate and development goals.

4. Align IMF programs with NDCs

The IMF's policy advice and fiscal frameworks significantly influence a country's ability to implement their Nationally Determined Contributions (NDCs) under the Paris Agreement. Traditional IMF conditionalities can undermine the investments and governance needed for a just transition. In particular, IMF policy recommendations that reduce public oversight or control over critical infrastructure, including renewable energy systems, water and flood management, and public transport, risk weakening countries' ability to meet climate goals and protect vulnerable communities. We urge you to:

- ensure that IMF policy frameworks actively support national climate plans and just transition strategies;
- oppose IMF policy recommendations that undermine public control of resources and infrastructure essential to a just climate transition; and
- promote alignment between IMF advice and global climate finance mechanisms, including coordination with the World Bank and multilateral funds.

5. Advance meaningful debt solutions for climate-vulnerable countries

Climate-vulnerable countries urgently need debt instruments that respond to the growing risks of climate shocks. Some sources suggest that the IMF is considering tools like Climate Resilient Debt Clauses (CRDCs) and debt-for-climate swaps. In existing models used by other institutions, CRDCs offer only temporary relief by suspending debt payments after extreme weather events—and often allow interest to accrue during the suspension period. Similarly, recent experiences with debt-for-nature or debt-for-climate swaps reveal that they provide limited debt relief, involve high transaction costs and third-party fees, and in some cases have been critiqued for bypassing democratic processes or failing to protect local communities' rights. We urge you to:

- reject the use of CRDCs, swaps, and similar instruments as substitutes for comprehensive debt cancellation;
- ensure that CRDCs or similar clauses, if used, come with clear safeguards to ensure interest does not accumulate during suspension; and
- advocate for coherence across IMF instruments to ensure they collectively enhance climate resilience and sustainability.

Debt Justice Norway

Estonian Roundtable for Development Cooperation (Arengukoostöö Ümarlaud)

Norwegian Forum for Development and Environment

Swedish Society for Nature Conservation

Lithuanian NGDO Platform

ACT Church of Sweden

Forum for
utvikling og miljø