

To: Mr. Audun Grønn, Executive Director, Office of the Nordic-Baltic Constituency
(agronn@imf.org)

September 24th 2014

Joint CSO letter to the Nordic-Baltic ED on the occasion of the IMF annual meetings 2014

Dear Mr. Grønn,

We, Nordic civil society organizations working for the eradication of poverty, just distribution of power and resources, and for democratization of global governance, would like to raise a few issues of concern to us prior to the up-coming annual meetings.

New solutions to debt problems

International framework for debt restructuring

The debate on statutory and contractual approaches to debt restructuring continues and has gained traction in the aftermath of Argentina's partial default in July. UNCTAD is expected to present a proposal for a new debt restructuring mechanism by the end of 2014, and the UN General Assembly has voted in favour of setting up a multilateral legal framework for sovereign debt restructuring processes (resolution A/68/L.57/Rev1). We encourage the IMF to support these processes within the UN, the UN being the appropriate forum to set up an independent sovereign debt restructuring mechanism.

Debt re-profiling and collective action clauses

The IMF staff paper on the IMF's lending framework and sovereign debt from June 2014 proposes debt re-profiling as an added tool for the IMF in cases where debt sustainability is uncertain and market access has been lost. Maturities would be extended up to three years, and the IMF would provide exceptional access to IMF funds. The re-profiling is meant to enhance flexibility in the Fund's 2002 framework. While the added tool of debt re-profiling is welcomed in giving more flexibility, it simply deals with cases where debt sustainability is uncertain, and allows for an extension of maturities. It does not represent a substantial addition in the discussion on creating a more efficient and fair framework for dealing with debt restructuring for countries in debt crisis.

The IMF is expected to present a paper on improving Collective Action Clauses (CACs) sometime in October. While the use of CACs over the past decade have been a positive development, there are serious challenges that remain with regards to the lack of aggregation clauses to ensure creditor participation across bond series, and empirical evidence on the effectiveness of CACs is so far inconclusive.¹ CACs are a way of binding all creditors to a restructuring process, but are far from sufficient to ensure an effective, independent and fair debt restructuring process.

Vulture fund activity

The case of NML Capital versus Argentina has reignited debates on the problem of hold-out creditors. While collective action clauses go some length towards hindering vulture fund activity, there is also a need for better regulation and legislation to ensure that hold-out creditors cannot derail debt restructurings. We encourage the IMF to promote the use of and improvement of CACs to prevent vulture fund activities.

¹ Brooks and Lombardi (2014), "Sovereign Debt Restructuring: A Background", Centre for International Governance Reform, draft paper, p. 14.

Inequality, growth and conditionality

We welcome the IMF's focus on inequality and its relation to both growth and fiscal policy this year. It is encouraging to see that the IMF has acknowledged the detrimental effect of inequality on growth, and that redistributive policies do not necessarily harm economic growth. A focus on inequality in both policy and practice is necessary if the IMF is to fulfil its own intentions on reducing poverty. However, there is still extensive use of conditionality in IMF programs, including conditions that require the reduction of public expenditure on health, education and social security, and tax policy conditions that require the strengthening of regressive taxation such as VAT. These measures can have a detrimental effect on redistribution efforts and inequality levels, as well as on development efforts on the areas in question. A recent study by Eurodad has shown that the average number of policy conditions per loan has risen in recent years². The report further found that there is a widespread and increasing use of controversial conditions in economic policy areas that are politically sensitive.

We strongly encourage the IMF to bridge the gap between policy and practice, and refrain from placing conditions that can contribute towards increased inequality levels. In fact, we advocate that the IMF should focus on its mandate as lender of last resort to countries that are facing temporary balance of payments crises. Such countries need rapid support to shore up their public finances, not lengthy programmes that require major policy changes. Further, the IMF should not place any harmful macro-economic conditions that limit the policy space of developing countries to achieve their own development objectives.

Governance

We call for the IMF to urgently reform its governance structure to improve transparency and accountability. Developing countries, and in particular the poorer and most vulnerable countries, must be given a fair voice and vote. Concrete action on improving the governance structure of the IMF is long overdue, and we recommend that double majority voting be implemented as a first step. Beyond that an adequate quota formula must be developed to give poorer countries more weight, vote and voice.

We look forward to your response on these issues.

Best wishes,

Changemaker, Diakonia, Digni, FIVAS, FOKUS, Forum for Development and Environment, Kepa, YWCA-YMCA Global Norway, Norwegian Church Aid, Rainforest Foundation Norway, Save the Children Norway, SLUG – Debt Justice Network Norway, The Development Fund



² Eurodad (2014) "Conditionally Yours: An Analysis of the Policy Conditions Attached to IMF Loans," see <http://eurodad.org/files/pdf/533bd19646b20.pdf>.