Joint CSO comments on IMF Debt Limits in Fund Programs with Low-Income Countries

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The debt limits policy of the IMF needs to be understood within a broader context of responsible lending and the financing needs of low-income countries.

CSOs have already emphasized that only responsible lending and borrowing can be sustainable over time, and that the responsible financing standards developed by UNCTAD, and CSO networks such as Eurodad and Afrodad need to be mainstreamed into future debt limit policies. This would include an increased focus on lender responsibilities to ensure that they are not fuelling a debt bubble, but are providing responsible loans. Being a lender itself, a conflict of interest arises when the IMF is tasked with developing debt sustainability analyses, which should not be carried out by a lending institution. The IMF and World Bank should focus on setting limits on their own lending, in line with an independent debt sustainability analyses, rather than focusing on limits on borrowers.

The financing needs of low-income countries must also be understood in the context of the failure to honor aid commitments by donor countries. Despite debt relief through HIPC, low-income countries still require substantial financial resources to achieve their own development goals and the MDGs. Where grant aid commitments have failed, LICs have had to look for resources through loan financing instead. The change in the IMF's debt limits policy seems to give a green light for more non-concessional borrowing, without providing clear incentives for grants or even concessional lending. Grants should primarily be encouraged, rather than both concessional and non-concessional lending.

Most importantly, our main concern is that the IMF's use of debt limits should not hinder the policy space of low-income countries in defining and pursuing their own development plans.

Specific comments on the changed IMF DLP for LICs:

- It's a positive development that concessional loans will also become part of the analysis when calculating the debt limits, making the analysis more comprehensive. However, the focus appears to be on giving a green light for non-concessional lending to LICs.
- Apart from the discussion on whether to use present-value (PV) or nominal figures on the debt limit, there are no strong incentives for concessional lending. The PV approach does give an incentive for borrowers and lenders to prefer concessional loans over market-term loans as it would allow borrowing a larger volume of the former under the same debt limit. This is however a very weak incentive. The current proposal for a new LIC debt limits policy bears the risk that new development finance

increasingly comes in the form of non-concessional loans, which implies higher financing costs and less financial stability for low-income countries.

- Contingent liabilities, including those arising from public-private partnerships and the accumulation of unsustainable debt in the private sector, have not been accounted for in the debt limits policy. Irresponsible and unsustainable private external borrowing can also lead to debt crises, in particular through the banking sector, or when the real liabilities of the state are hidden through PPPs, and should be included in the debt limits policy.
- The transparency of the data should not only be transparency in relation to the IMF board, but the data should be available for public scrutiny within the country itself, including for parliaments and civil society. This must include access to follow up on the annual debt strategy and the debt limit set.
- Debt limits could be set on debt servicing rather than total debt. Focusing on, or including, projected debt service as a quantitative limit would fully cover the actual repayment cost of loans, and tie the debt limits policy more closely to the debt sustainability analysis.
- The DLP itself is a form of conditionality. Although we do see the need to avoid situations of unsustainable debt and debt crisis, the debt limits policy grants an extremely strong role for the IMF staff and board. Assessments and judgments would be made primarily by these actors and bodies. Given the genuinely political nature of the IMF board and the political pressure on the IMF staff that follows from this situation, we think that a reform proposal of the DLP should reflect on how more responsibility could be assigned to either independent actors, or locally and democratically legitimized actors. It is difficult to see how the new approach will be "country-driven" as pointed out in the December 2013 paper, given that both the country's borrowing strategy and macro-economic program has to be in accordance with how the IMF defines debt sustainability.
- This change in DLP should also lead to a revision of thresholds, in order to include other types of debt to have a complete assessment of sustainability.

We look forward to your response on these issues.

Best regards,

Afrodad
Bretton Woods Project
Center of Concern
Eurodad
Erlassjahr.de
Jubilee Debt Campaign
Jubilee USA
Latindad
New Rules
The Norwegian Coalition for Debt Cancellation