Contribution to IMF and World Bank review of the debt sustainability framework for low-income countries

8 February 2026

Introductory remarks

The Global Coalition for Social Protection Floors (GCSPF) is grateful for the invitation to the virtual off-the-record roundtable that staff of the International Monetary Fund (IMF) and the World Bank Group organized on 4 December 2025 with civil society organizations to inform about progress the Fund and Bank are making in their review of the debt sustainability framework for low-income countries (LIC-DSF). With this note we respond to the invitation to provide a written input and elaborate the points raised during the roundtable, while also endorsing the proposals made in the joint civil society policy brief.[1]

Our perspective is that governments are responsible to carry out all their essential functions at all times and thus there is a policy problem when obligations to fully service their debts compromise their ability to honour those responsibilities. In fact, governments often do not accept all their social, economic and environmental obligations, in which case, the debt sustainability analyses would flag when governments might find themselves challenged to simultaneously continue to meet the obligations they do accept to their citizens and obligations to their creditors.

A worrisome debt sustainability analysis has usually led to recommendations to curb government spending, frequently the civil service wage bill and social spending. Until recently, the alternative policy of increasing the level of taxation was rarely recommended. This has happily changed in a number of instances. However, we do not yet see sufficient appreciation in actual country programs of the need to maintain social

[1] Improving the IMF and World Bank's Debt Sustainability Framework for low-income countries (June 2025).

protection and other social spending during adjustment periods. In crisis cases that require debt relief, we do not see sufficient relief accorded to return to sustainable debt situations without unwarranted paring back of social and other essential spending.

We appreciate that the policy options to cure a weak debt situation are not considered in the debt sustainability analysis per se. It is a technical exercise (indeed, an elaborate spreadsheet) in which staff only ask whether a baseline projection and its financing envelope are robust or fragile. This is first an assessment of the baseline projection itself and then what are the expected fiscal and balance-of-payments consequences should various alternate scenarios come to pass, including standardized and customized shocks and crises. Especially when preparing country loan programs, it may be hoped that various iterations of the DSF are taken to help inform negotiations on the country programs and their financing well before the final package is agreed.

No IMF program should be accepted by the Executive Board in which the baseline scenario of the final staff report lacks high probability of meeting the social, economic and political needs and obligations of the government, including adaptation to environmental risks, let alone obligations on mitigation. We return to this below but focus next on how well the DSF exercises test the robustness of the baseline scenario.

Comments within the LIC-DSF terms of reference

We recognise the inherent trade-off between welcoming additional borrowing vs. preventing debt crises: If the LIC-DSF is too cautious, by generating a high-risk rating too quickly, it may deprive some countries from some sustainable financing and additional economic growth, let alone additional provision of social services. If the LIC-DSF is too complacent, by generating a high-risk rating too slowly, it may incentivize too much borrowing and lead to a debt crisis or delayed debt restructuring.

Given the very high social cost of crises, we urge minimizing their likelihood, even at the expense of undergoing false alarms. This notwithstanding, we believe that the appropriate development of social protection programs and the taxation increases to finance them will make a country's economy more resilient and—everything else equal—reduce the probability of debt distress. This should also inform the country macroeconomic models.

In practice, the LIC-DSF assessment is governed by a collection of pre-set benchmarks for countries deemed to have strong, middle or weak institutions and policies. While the classification of individual countries may look more scientific than it is, the reporting of the number of countries in high, medium and low risk seems a useful rough indicator of debt stress in LICs. However, it seems indicative that no comparable scores are posted for market access countries.

We think the revised LIC-DSF should make more room for policy-driven departures from the baseline's primary balance in shock scenarios. In particular, in natural catastrophe scenarios, governments will need to spend more and will take in less revenue than under the baseline. They will need additional financing or additional debt relief, as under the DSSI or "debt pause clauses." Indeed, they may be pushed into unsustainable configurations and require permanent debt relief or more of it.

We note that the debt sustainability framework for market-access countries (Sovereign Risk and Debt Sustainability Framework, SRDSF) includes an option to assess the implications for debt sustainability of a natural catastrophe. The scenario simulates the impact of past shocks and government responses to them. Indeed, an exercise using the SRDSF to examine the impact of a natural catastrophe in Peru and Colombia may be instructive.[2] The existing LIC-DSF spreadsheet makes provision for examining such shocks, but we do not know if it has ever been used. This and a similar module for other crises, notably pandemics, should become a standard scenario in the revised LIC-DSF. LICs have faced and likely will continue to face massive shocks to health and the environment requiring expanded social protection and other spending. This is a policy need recurrently referred to in the IMF technical note on engagement on social safety net issues.[3]

Comments toward an enhanced concept of the LIC-DSF

The review of the LIC-DSF provides an opportunity to expand the institutional thinking at the Bank and Fund about debt sustainability. The current LIC-DSF assesses a country's repayment capacity while possibly sacrificing some of its spending on social and economic development. We would not privilege returns to creditors who accept default risks when they lend over development needs of low-income populations.

1. **Stronger social protection will deepen financial resilience**

The LIC-DSF is a fairly mechanical exercise that takes the macroeconomic model of a country as given. As noted, social protection systems can make economies more resilient to financial pressures. Thus, adequate social spending should be built into medium-term spending plans along with appropriate revenue mobilization. The multiplier effects of such spending should then be built into the economic models underlying the baseline projection.

As recognised in IMF's strategy for engagement on social spending, social spending plays an important role in promoting sustained and inclusive growth. A recent study of 42 countries found that the average cumulative multiplier of public spending on social protection is 1.84, and that the positive impact on GDP is significantly larger than that

[2] Franco Maldonado and Kevin Gallagher, Climate Change and IMF Debt Sustainability Analysis (April 2022).
[3] IMF (2022), IMF Engagement on Social Safety Net Issues for Surveillance and Program Work. IMF Technical Notes and Manuals 2022/000

for total government expenditures, and is especially pronounced in countries characterized by higher inequality.[4] Further, the study finds that countries with smaller social protection programs tend to experience higher multipliers when social spending increases.

As the authors of that study conclude,

> "The positive and persistent multipliers show that social protection expenditures can, in fact, contribute to development, rather than slow it down. This is of course not meant to suggest that expanding social protection systems is a silver bullet that can contribute to overcoming all obstacles to development—it does not necessarily attenuate balance-of-payments constraints to economic growth, for instance…However, a comprehensive development strategy may use the expansion of universal social protection systems as a tool that can not only promote inclusive growth but also help forge a political coalition that can sustain in the long term the implementation of the strategy itself."

2. More development-oriented primary balances during adjustment

When debt is no longer sustainable, some measure of austerity is politically inevitable, although which government programs are cut, which sources of revenue increased, which multilateral loans are extended, and which debts (if any) are restructured and by how much are not pre-determined. Policies to regain debt sustainability must be "politically feasible and socially acceptable" according to the IMF's definition of debt sustainability.[5] In its guidance on program design and conditionality, the IMF accepts the importance of maintaining and enhancing social spending during country programs, including social protection, in order to maintain political stability and prevent social unrest during crises.[6]

Still, a recent study found that "although references to the social impact of austerity measures are increasingly mentioned, they are disconnected from the policy advice as a whole. Of the 100 Article IV reports analysed in that study, none presented counter-cyclical policy recommendations that respond to increasing social inequalities."[7]

The analysis of what is politically feasible and socially acceptable has, of course, to be

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[4] Cardoso, D., Carvalho, L., Lima, G.T., Nassif-Pires, L., Rugitsky, F. and Sanches, M. (2025), The Multiplier Effects of Government Expenditures on Social Protection: A Multi-country Study. Dev Change, 56: 172-224. https://doi.org/10.1111/dech.12869

[5] "In general, overall public debt and public external debt can be regarded as sustainable when there is a high likelihood that a country will be able to meet all its current and future financial obligations. In practice, sustainability would imply 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 authorities' development goals." IMF (2018). Guidance Note on The Bank-Fund Debt Sustainability Framework for Low Income Countries, p 46-47.

[6] IMF, Operational Guidance Note on Program Design and Conditionality, January 3, 2024, especially paras. 74-78.

[7] Bretton Woods Project, Brace for Impact: Social and gender inequalities in IMF surveillance, October 2025,

determined by country authorities, which should take account of the perspectives of non-state actors. The views of the Fund and Bank should as well be informed by adequate—not performative—consultation with national civil society. The staff should be guided by the priorities of the international community, which include striving to attain the sustainable development goals, not only the interests of the country's creditors. It is thus important that IMF and Bank staff take the development impact into account in their LIC-DSF exercises, especially when their assessments of debt sustainability inform the necessary degree of debt restructuring of crisis countries.

3. IMF and World Bank staff should be guided by human rights

While recognizing that the LIC-DSF is a relatively technical exercise appended to country papers for Article IV surveillance and country programs, it inescapably embodies the broader policy approach of the Fund and Bank. As CSOs committed to human rights, we emphasise that social security is a human right, as well as an important means of fulfilling a number of other human rights. The Guiding principles on foreign debt and human rights,[8] include a number of relevant principles in this regard, such as minimum core obligations, non-retrogression, and progressive realization:

> 16. States should ensure that their rights and obligations arising from external debt agreements or arrangements, particularly accepting an unreasonable or excessive obligation to repay external debt, do not hinder the progressive realization of economic, social and cultural rights. Non-State lenders have an obligation to ensure that debt contracts to which they are party or any policies related thereto fully respect human rights.

Further, the Guiding Principles on Human Rights Impact Assessment of Economic Reforms include elaborated guidance on non-retrogression:

> 10. Retrogression should be avoided even in extreme economic conditions. Measures that would result in a deterioration in economic, social and cultural rights are only permissible if they meet certain criteria. They must be temporary, legitimate in the sense that they are designed to contribute to the ultimate realization of human rights, reasonable, necessary, proportionate, non-discriminatory, protective of the minimum core content of economic, social and cultural rights, and designed and adopted consistent with the requirements of transparency, participation and accountability.

4. Public-sector wage bill: a crucial indicator of stress

Recall that the path to debt sustainability requires that the fiscal policies must be "politically feasible and socially acceptable" and that the policies must be compatible with the country's development goals. Thus, if a country cannot pay adequate salaries or employ sufficient numbers of the civil servants necessary to deliver essential social services, or honour its pension obligations, one should not say that the country has

[8] **International standards | OHCHR** **A/HRC/20/23** Document Viewer

achieved a sustainable debt situation after debt restructuring.

The large majority of civil servants are employed in the education, health and social sectors, and hence constitute a backbone of social spending. Nevertheless, cuts in salaries and other cutbacks in those sectors are often key elements in austerity programmes—often as recommended in Article IV policy reviews, according to an analysis by Bretton Woods Project. In 80 per cent of the Article IV reports it analysed, fiscal constraint was primarily based on reforms to the public sector, including rationalising, freezing or cutting the wage bill of public sector workers.[9] The impact on public health workers and teachers, as well as on the people depending on their services, have been thoroughly documented.[10] In this regard, it should be noted that cuts in the public-sector wage bill may disproportionately impact women, as recognised in a 2018 IMF Staff Guidance Note.[11]

Governments that are in debt distress may hold back payments to civil servants and pensioners. This is an indicator of serious trouble. These arrears should be cleared with highest priority for social and political harmony, independently of the debt restructuring agreement with other creditors, which may take years to finally resolve.

Recommendations

The LIC-DSF plays an important role in policy guidance at the IMF and the World Bank. Its assessments determine whether a borrower from IDA will be supported by grant or loan financing and it sets limits to foreign borrowing on commercial terms for countries supported by IMF loans. It also features as a check in cases involving sovereign debt restructuring regarding whether adequate relief is programmed so as to lead a country to a sustainable debt situation.

At the same time, the LIC-DSF is a technical exercise appended to Article IV surveillance reports and IMF country program papers and as such depends on the assessment in the main papers of the implementation of medium-term expenditure and revenue plans (where such plans exist), including provision of “adequate, efficient and sustainable” social protection systems. The DSF is thus a prisoner of the extent to which social protection and other social concerns are built into the baseline. We thus urge that adequate attention be paid to social spending priorities at the program design stage.

In particular,

1. The economic model used to devise the baseline scenario should incorporate an evidence-based fiscal multiplier for social protection spending.
2. The stress tests (shocks) must assume social protection spending increases

[9] *Brace for impact: Social and gender inequalities in IMF surveillance*
[10] ActionAid International (2025). The Human Cost of Public Sector Cuts in Africa.
[11] How to Operationalize Gender Issues in Country Work

commensurate with each shock.

3. Where fiscal consolidation is a feature of the baseline, social spending (education, health, social protection) should be “ringfenced” obligations.
4. Arrears to civil servants and pensioners should be considered government repayment obligations of higher priority than arrears to creditors.
5. IMF and Bank staff must carry out deeper and broader consultations with civil society to assess the political feasibility of its baseline scenario.