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March 2012

Joint Letter to the Nordic Ministers and Executive Directors prior to the World Bank and IMF Spring Meetings 2012.

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 five issues of concern to us prior to the up-coming meetings:

- Gender in the Bank: The need for a twin-track approach
- Private sector for development: A shift from development to profit
- LICs: The need to enhance the IMF's focus on growth and poverty reduction, better debt sustainability analyses and a debt work-out mechanism
- The shortcomings of Program-For-Results and the need for safeguards
- An open, merit-based and transparent selection of the next Bank president

1. Gender in the Bank: The need for a twin-track approach

We welcome the World Bank's increased focus on gender equality and the 2012 World Development Report (WDR) on Gender Equality and Development. The WDR shows that gender equality is smart economics. However, gender equality is first and foremost about women's rights. The World Bank should prioritize projects aimed at marginalized groups, even when the impact of a program cannot be counted in money.

We also welcome the Bank's partnership with UN Women with the aim of closing data gaps through the Evidence and Data for Gender Equality (EDGE) Initiative. It is essential that the Bank proceed to follow a twin track approach to close the gender gaps that will be documented through the EDGE Initiative and which the 2012 WDR uncovers. As gender mainstreaming too often means "malestreaming", there is a need to prioritize projects that specifically target women and girls. In projects where mainstreaming is the approach, there needs to be a gender tracking mechanism, clearly revealing the project's impact on females. Evidence and data for gender equality should be included in all impact studies of World Bank projects.

2. Private sector for development: A shift from development to profit

While there is no doubt that development finance institutions (DFIs) have the potential to provide much needed financial resources to areas of the world that have access to none, research by the European Network for Debt and Development (Eurodad) reveals that there is a trend among these institutions to look for projects where they can leverage large returns on investment, with the development impact being a secondary motivation. The World Bank Independent Evaluation Group (IEG) report *Assessing IFC's Poverty Focus and Results* (2011) reveals that less than half of the IFC projects reviewed were designed to deliver equitable development outcomes, and just one third of the projects addressed market failures, such as enhancing access to markets or employment of the poor. Unfortunately, the vast majority of the IFC's portfolio goes to companies based in OECD countries, not to companies domiciled in developing countries.

While we acknowledge the steps taken by the World Bank Group to formulate a new policy for IFC investments in Offshore Financial Centres, the policy does not in practice prevent the IFC from investing in financial intermediaries domiciled in tax havens. We recognize and value the criticism and the steps already taken by the Nordic-Baltic Group in relation to the IFC policy, and we urge the Nordic-Baltic Group to continue advancing these criticisms internally in the World Bank Group.

Furthermore, the trend of increased investments in finance and increased use of leverage is worrying. The IFC now invests more in the financial sector of developing countries than any other sector. Investments particularly flow to large commercial banks and private equity funds. Meanwhile, the IFC claims that every dollar of IFC investment leverages $3 from others. Although increased investment can be positive, it is important to note that the higher the leverage ratio, the stronger the private sector influence and the lower the likely development impact.

Finally, the opportunity cost of investing in the private sector is imperative to consider. While the World Bank Group's investments in the private sector largely fail to deliver tangible development results, there remains a substantial need for direct public investment, including in basic services.

As Nordic civil society organizations we call upon the Nordic representatives in the World Bank to demand that:

- The IFC demonstrates that it engages exclusively in pro-poor and equitable investments, where development impact and environmental sustainability is held above financial return.
- Increasing reliance on financial intermediaries must be complimented by increased transparency to ensure that the programs have clear development impacts.
- The IFC must scale up its focus on retaining development finance in the private sector within developing countries.
- The IFC needs to ensure that its investment strategies are in line with internationally agreed upon development goals and agreed upon principles of development effectiveness.

3. The shortcomings of Program-For-Results and the need for safeguards

There is a real risk that the Bank's new lending instrument, Program-for-Results (P4R) will undercut decades of efforts to establish strong social and environmental standards and accountability mechanisms at the Bank. Under the laudable rubric of providing governments with more flexible financing for health, education and other programs, P4R actually allows the Bank to fund potentially harmful project and activities that specifically would be exempt from complying with most World Bank safeguard policies, including those related to indigenous peoples, involuntary resettlement, natural habitats and dam safety, as well as other important policies, including those related to transparency, project supervision and monitoring.

We are disappointed that the Bank went ahead with P4R despite massive protests from civil society. Nonetheless, we welcome the decision to limit the use of this new instrument to only 5% of total funding commitments per year for two years. According to the Bank, rolling out full implementation will depend on a rigorous review of its performance. We wish to highlight the importance of this review being independent. Furthermore, we hope that our ED in the Bank will push for civil society to be able to give input to the evaluation's terms of reference.

In addition, we wish to express concern regarding the Bank's safeguard review. As the IEG has uncovered, there has been a trend towards more environmental and social risk over the past decade. We are concerned that the safeguard review will support the trend of less accountability for the impact of Bank lending on communities, and less fiduciary responsibility on the part of the Bank. We therefore call upon our Nordic representatives in the Bank to support the IEG conclusion: The estimated benefits from environmental and social safeguards are greater than the incremental costs in every case. Finally, we hope that our representatives agree that safeguards must apply to all loans.

4. LICs: the need to enhance the IMF's focus on growth and poverty reduction, better debt sustainability analyses and a debt work-out mechanism

As low-income countries (LICs) have been adversely affected by the financial crisis, we welcome the decision to channel the windfall profits from gold sales to the financial package for LICs through the Poverty Reduction and Growth Trust (PRGT). However, findings from the fresh report *Enhancing the IMF's Focus on Growth and Poverty Reduction in Low-Income Countries* (2012) from Development Finance International; show that there continues to be little or no analysis of the likely poverty or distributional impact of PRGT-programs.

On this background, we call on the Nordic representatives in the IMF to:

- Urge the Fund to produce annual PRGT-reviews specifying exactly how programs are accelerating poverty reduction and growth.
- Welcome transparent debates between the IMF, LIC policymakers and civil society, at global and national level, on planned spending levels.
- Urge the Fund to reform its inflation targets and structural conditionalities.
- Urge the Fund to improve poverty reduction spending floors by adopting them in all countries and to publish more detailed progress disaggregated by sector.
- Urge the Fund to increase scope by reinforcing efforts to increase tax revenues and to mobilize more grants and concessional loans to support strong overall and sector anti-poverty plans.

Furthermore, we are not satisfied with the review of the debt sustainability framework (DSF) earlier this year. Although we welcome the lowering of the threshold for debt distress, the review fails to promote necessary fundamental changes to the DSF. Contrary to what the review says, the data in the review illustrate that the Debt Sustainability Analysis (DSA) tends to under-predict future debt burdens. In addition, the framework fails to take non-financial factors and the origin/legitimacy of the loans into account. Although there is recognition in the review that external private debt is important, there is little detail on how an additional risk rating for such debt will be formulated. Strangely, the review also suggests cutting down on DSAs, and only conducting them every three years. Finally, one of the framework's major deficiencies remains unchanged: the fact that the analyses are creditor-driven gives them a biased character. This is especially worrying as the DSA's methodology is not revealed.

We thereby call on the Nordic representatives in the Bank and the Fund to request:

- More cautiousness in the DSA in order to make more accurate predictions.
- That the DSA should not solely look at the ability to pay when judging a country's indebtedness. The analysis should also consider the impact debt repayments are having on a country's ability to cut poverty, inequality and protect human rights.
- Quantified indicators to monitor the risk of external private debt.
- To hold lenders more accountable for their actions, and to allow debate on the quality as well as quantity of lending, there should be far more information on where the loans are from, on what terms and for what projects.
- The Fund and the Bank should conduct full annual DSAs.

Finally, we wish to highlight the fact that the Heavily Indebted Poor Country Initiative (HIPC) is running out while one third of LICs are either in debt distress or at high risk of debt distress. We believe the Euro crisis highlights the need for an independent debt work-out mechanism as well as the need for binding rules for responsible lending and borrowing. As the Nordic civil society organization, we therefore call upon the Nordic representatives in the World Bank and IMF to:

- Support the establishment of binding rules for responsible lending and borrowing, and an independent, fair and transparent debt work-out mechanism. These mechanisms should be independent of the World Bank and the IMF.

5. An open, merit-based and transparent selection of the next Bank president

The Development Committee endorsed last year an "open, merit-based and transparent selection process". To ensure the selection of the best candidate, with the legitimacy gained from the support of the wider World Bank membership, not just a powerful minority of countries, we believe three things are essential.

- The candidate must gain the open support from at least the majority of World Bank member countries, and from the majority of low and middle-income countries. As the Bank *only* operates in developing countries, and has most impact in low-income countries, any candidate that was not supported by these countries would seriously lack legitimacy. Countries should be allowed to vote independently, not through their constituencies, and declare their support publicly.
- The selection process needs to be significantly strengthened. This should include: having a public application procedure open to anyone to apply; sufficient time to allow proper deliberation; interviews held in public; and open voting procedures.
- A clear job description and required qualifications should be set out. Given that the World Bank has a mandate to focus on eradicating poverty and only works in developing countries, the new President should have strong understanding and experience of the particular problems facing those countries.

We hope that our representatives in the World Bank and the IMF will support these points.

We look forward to your response on these issues.

Yours sincerely,

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Norwegian Coalition for Debt Cancellation

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Markus Nilsen, Leader, Changemaker

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