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Joint Letter to the Nordic Ministers and Executive Directors prior to the World Bank and IMF Annual Meetings 2009.

We, Nordic civil society organisations working for the eradication of poverty, just distribution of power and resources, and for democratization of global governance, would like to raise three issues of concern to us prior to the up-coming meetings and we look forward to your response to these issues:

- IMF financial package to low income countries
- World Bank governance reform
- Increasing debt distress and the need for an orderly debt work out mechanism

IMF financial package to low-income countries

Despite claims by the IMF that it is mounting "a historic effort [...] to help the world's poor" which "should help prevent millions of people from falling into poverty," the Fund is failing to deliver on most civil society demands. Although some of the measures announced by the Fund, such as a relief on interest payments for all loans to low-income countries through 2011, are positive, they are not sufficient in size and scope to provide the additional financing that low-income countries need in order to meet foreign exchange shortfalls and address the debt distress and balance of payments problems they are experiencing.

Little progress has been made on the minimum demands made to ensure that IMF funding for LICs is adequate, non-debt creating, free of harmful economic conditionalities and effective in combating the effects of the global economic and financial crisis on the world's poorest countries. Proposals agreed to by the IMF board at the end of July are simply insufficient, but changes can still be made before, or at, the Annual Meetings.

As Nordic civil society organisations we call upon the Nordic representatives in the IMF to ensure that:

- Resources, including all emergency and standby assistance, are provided without economic policy conditionality. However, all parties need to abide by responsible standards for lending and borrowing. Low-income countries should not be required to tighten their fiscal and monetary policies by curbing public spending or lowering inflation at a time of global recession and unprecedented revenue losses. There also should be a concessional facility for low-income countries that mirrors the Flexible Credit Line (FCL) which has been made available to middle-income countries.
- At least \$5 billion in fresh resources is generated and devoted to low-income countries. These resources could be found from a combination of IMF gold sales and other IMF income sources. It must not come from existing aid budgets or pledges.
- These resources should be provided on non-debt creating terms in order to help ease the growing debt distress levels of low-income countries. One development-oriented way in which this could be done is by placing an unconditioned moratorium on all debt service payments (principal and interest) for low-income countries affected by the crisis.
- SDR allocations should be made on the basis of need and SDRs should be issued by the IMF on a regular basis, which would require a change to the IMF's Article of Agreements. In the meantime, the disproportionate amount of SDRs that have been allocated to rich countries should be transferred to developing countries. Either a special targeted allocation should be made on the basis of need or the Articles of Agreement should be changed to allow one-off re-allocations of SDRs without interest charges. The interest costs for low-income countries should at least be fixed, and preferably eliminated or subsidised by the IMF itself (e.g. through use of the proceeds from sales of IMF gold).

World Bank governance reform

Nordic and European governments will play a critical role in ensuring the Bank emerges with a governance model which enhances its effectiveness and legitimacy. It is time for fundamental reform to redress the democratic deficit at the World Bank, and give real power to the developing countries the Bank is supposed to support.

As Nordic civil society organisations, we call upon the Nordic representatives in the World Bank to support reform in the following areas:

- The ongoing review of World Bank disclosure policy is critically important. We hope that you will support the practical recommendations of the global transparency initiative, including a presumption of automatic disclosure with a strictly limited regime of exceptions, including publishing the transcripts of Board meetings¹.
- It is critically important that developing countries gain a fair stake in the Bank: they represent over 80% of the world's population and the Bank's membership, they are the countries in which the Bank overwhelmingly works, and they are increasingly important financial contributors, in particular financing the IBRD and IFC through loan repayments. Moving to a situation where borrowers and lenders at least have equal voting shares would be a reasonable short term goal. The G24 group of developing countries has developed a formula for allocating voting shares which contains key elements of the way forward. Firstly it recognises the need to make Bank shareholding more representative, through increasing basic votes, and factoring in the importance of population. Secondly it recognises the development mandate of the Bank by including, for example, poverty incidence, and also by recognising financial contributions made by countries to the Bank.

¹ Global Transparency Initiative Charter:

<http://www.ifitransparency.org/activities.shtml?x=44474&als%5bselect%5d=44474>

It is clear that IMF quota reforms are not a good model for the Bank, which has a very different purpose from the Bank.

- There will be a need to reallocate Board seats based on changed voting shares, for example by ending the outdated practice of some countries having permanent seats. European governments, who hold eight chairs and have over 30% of the vote at the Bank, have a special responsibility to push for reform. This will mean reducing the overall voting share of European nations, and potentially reallocating between EU countries.

By pushing for the above set of concrete, achievable reforms, European governments can demonstrate their commitment to transforming the international financial architecture so that it becomes more democratic, accountable and legitimate. These reforms are a fundamental pre-requisite for ensuring that the World Bank can play an effective role in the global fight against poverty.

Increasing debt distress and the need for an orderly debt work out mechanism

A number of developing countries, including several HIPC-completion point countries, are now facing increasing debt burdens. UNCTAD recently cited concern over possible unsustainable debt levels in 49 least developed countries. Meanwhile, the G20, in its April 2009 communiqué asked the World Bank and the IMF to re-assess the debt sustainability framework (DSF) for low-income countries. Under the previous framework, low-income countries were required by the Bank and the Fund to respect a 35% minimum grant element for new finance; but this requirement has now been abandoned. It is replaced by a country-by-country approach and LICs will need to meet average concessionality requirements across the range of new debt they are taking-on. Moreover, reform of the DSF will take into account the level of migrant remittances which are sent to the country and will also not consider some debt owed by state owned enterprises in assessments of countries' overall indebtedness levels. The stated aim is to give countries greater flexibility to take-on new non-concessional finance.

While the World Bank and the IMF heralded the DSF as the key tool which would prevent the build-up of new debt in poor countries, we have as Nordic civil society groups several times criticized the arbitrary one size-fits-all thresholds on levels of concessional/non-concessional finance. While a move away from the rigidity of this framework is welcome, we are concerned that it could also provide donors a get-out clause from providing dramatically increased levels of concessional funds to the poorest countries in the context of the global financial crisis. The current situation requires a massive scale up of predictable, concessional, non-debt creating financing. The decision furthermore reveals that both the Bank, the Fund and donor governments continue to avoid any discussion about a binding international framework for responsible financing and orderly debt work-outs. Without these measures a number of developing countries are running the risk of running up new unsustainable and illegitimate debt and there is no process to deal with the fall-out in a fair and transparent manner.

As Nordic civil society organisations we call upon the Nordic representatives in the World Bank and the IMF to support:

- The establishment of binding rules for responsible lending and borrowing that will include all creditors. The Eurodad Responsible Financing Charter could be a good starting point².

² Eurodad Responsible Financing Charter: <http://www.eurodad.org/whatsnew/reports.aspx?id=2060>

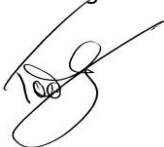
- The establishment of an independent, fair and transparent debt work out mechanism that can assess and address unsustainable and illegitimate debts.

We look forward to hearing your views on the above.

Yours sincerely,



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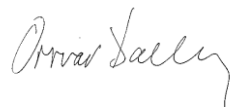
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