World Bank Spring Meeting 2025 Nordic-Baltic CSO Letter

Dear Ms. Rawet

We, the Nordic-Baltic civil society constituency working for human rights, the eradication of poverty, climate justice as well as fair distribution of power and resources, thank you for the opportunity to comment on the Nordic-Baltic Constituency's work within the World Bank and would like to take the opportunity to raise some issues of concern ahead of the 2025 spring meetings.

Improving the IMF and World Bank's Debt Sustainability Framework for Low-Income Countries

The World Bank and IMF's debt sustainability analyses produced according to the LIC-DSF[1] are technical documents with huge political significance. They affect the nature (loans vs. grants) and sometimes quantity of the funding that low-income countries get from the World Bank, IMF and some other aid agencies. They affect private creditors' risk perception. They also determine whether the IMF requires a debt restructuring as a condition for a loan, and anchor negotiations about the amount of debt relief that borrowers get if they apply for it.

Because of their political significance, debt sustainability analyses are susceptible to influence by the World Bank and IMF´s boards, which are controlled by creditors. Creditors' control over debt sustainability analyses constitutes a conflict of interest that compromises the credibility of these analyses, no matter how well the analytical framework is improved. We therefore make recommendations to improve the governance of the LIC-DSF. For the purpose of debt restructurings, debt sustainability analyses must be conducted independently from both the debtor and its creditors, and hence from the World Bank and IMF. The staff's analytical work must be insulated from the board's political interference and transparency of the LIC-DSF must be further increased to make political interference more difficult to hide.

As technical documents, we appreciate the periodical reviews of the methodology that underpins debt sustainability analyses, and the opportunity to give input into these reviews. Our detailed recommendations are:

Debt sustainability definition

<u>Recommendation 1:</u> *The LIC-DSF must adopt a quantitative definition of debt sustainability, which must be published, and which must be applied in debt sustainability analyses produced in the context of an IMF programme. This quantitative definition must be consistent with the current qualitative definition, which emphasizes both a feasible adjustment in the fiscal balance and acceptable progress on development goals. Two key variables to assess debt sustainability could be the estimated maximum primary fiscal balance and change in primary fiscal balance compatible with economic recovery comparable with peers in the medium term.*

The IMF defines debt sustainability as a *"high likelihood that a country will be able to meet all its current and future financial obligations[, which implies] 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*

[1] https://www.worldbank.org/en/programs/debt-toolkit/dsa

authorities' development goals."[2] Although the LIC-DSF includes "mechanical" (i.e., quantitative) signals to determine the level of risk (low, moderate, high), whether debt is sustainable or not is a matter of judgement. As the definition suggests, this judgement call is as much a matter of political analysis, as of economic analysis.

Whether the debt is called unsustainable is therefore ultimately a political decision under the current LIC-DSF. As such, it is susceptible to political pressures from its shareholders who are mainly creditors. That matters because the IMF has a policy of not lending into unsustainable debt situations unless a debt restructuring takes place (or additional grants or concessional loans are provided) during the IMF programme in such a way as to make the debt sustainable. It is an important policy that is meant to prevent IMF resources from bailing out existing creditors, lengthening debt crises, and pushing the eventual costs of debt restructurings onto multilateral lenders, which is what happened in the debt crises of the 1980s and 1990s. Leaving too much political discretion into the definition of unsustainability heightens the risk of restructuring the debt "too little, too late".[3]

The alternative framework for "market access countries" (the Sovereign Risk and Debt Sustainability Framework or SRDSF) does incorporate a quantitative definition of debt sustainability, which is complemented by judgement. However, it focuses on the first part of the IMF's definition: ability to pay back the debt. Some governments have in the past managed to pay back their debt only at the cost of deep and prolonged austerity that depressed their economic growth and development over a decade or more. Such situations do not fit the sustainability definition. The World Bank and IMF ought to estimate the maximum primary fiscal balance and change in primary fiscal balance compatible with economic recovery sufficient to catch up economic growth on par with peers (i.e., countries of similar development levels in the same region) in the medium term.

Debt restructuring goal

<u>Recommendation 2:</u> *The LIC-DSF must state that any debt restructuring must bring both external and public debt down to at most "moderate risk of debt distress with substantial space to absorb shocks" by the end of the IMF programme and remain below that level every year through the rest of the ten-year time frame of the analysis.*

The IMF acknowledges that debt relief has been granted "too little, too late".[3] The current LIC-DSF and even the 2024 supplemental guidance are not categorical enough in setting an objective and quantitative goal for debt restructuring agreements. Most of the recent debt restructurings have lowered debt only just below the threshold for "high-risk of debt distress", such that countries could relapse into "high risk" after a single natural disaster or other shock.[4] Too little debt relief fails *"to re-establish debt sustainability and market access in a durable way".*[5] It leaves countries at risk of repeated restructurings and with a high cost of capital that blunts economic recovery. That discourages more low-income countries from applying for debt

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[2] https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf (p.47)

[3] https://www.imfconnect.org/content/imf/en/annual-meetings/calendar/open/2022/10/11/167983.html?calendarCategory=T2ZmaWNpYWwvQnkgSW52aXRhdGlvbg==.UHJlc3M=.V29ybGQgQmFuaw==.T3Blbg==

https://www.elibrary.imf.org/display/book/9781513594477/9781513594477.xml?rskey=NCiZq9&result=1

https://cup.columbia.edu/book/too-little-too-late/9780231179263

[4] https://debtjustice.org.uk/press-release/private-lenders-to-make-14-billion-profit-after-debt-relief-deals

[5] https://www.imf.org/external/np/pp/eng/2013/042613.pdf

relief under the Common Framework despite the fact that over half of them are rated at “high risk of debt distress”. Debt restructurings are politically and socially painful experiences, they must be made worth it. The LIC-DSF must not allow staff judgment to set both external and public debt targets above the “moderate risk of debt distress with substantial space to absorb shocks” by the end of the IMF programme and every year thereafter through the rest of the ten-year horizon.

Human rights and social protection[6]

<u>Recommendation 3</u>: In addition to the baseline projection and stress tests, the LIC-DSF must include an “ambitious scenario” for all countries, where government spending is increased such as to achieve the Sustainable Development Goals (SDGs) or other UN benchmark for the progressive attainment of universal economic and social rights. The IMF must invest more resources into applying existing standardized methodologies to estimate the cost of each SDG in each country in consultation with the government and civil society (and can meanwhile use per capita estimates of countries of similar income level and region). The ambitious scenario must indicate how much additional concessional loans (until the debtor reaches the threshold for high-risk of debt distress) or additional grants or debt relief are needed to ensure debt sustainability. The LIC-DSF must let users customize both the spending and financing of the ambitious scenario.

Under the current LIC-DSF, the baseline scenario is based on current policies, including both the current spending plan of the government and the inflows of external resources that are expected based on donors’ plans. The IMF and World Bank consider that it is the borrowing government’s responsibility to integrate the SDGs into its current spending plan. In practice, governments don’t do it because they know that they can’t finance more ambitious plans.

The ambitious scenario could be used as a fundraising tool, to encourage borrowing governments to develop national development plans showing donors what could be achieved with debt relief or additional grants and concessional loans. While governments could in theory do that unilaterally outside of the LIC-DSF, it requires expertise that they often lack and they face pressure from donors not to ask for too much. The IMF and World Bank, as members of the UN system and bound by international human rights law, should use their expertise to estimate the costs of SDGs (as methodologies exist but have been applied to only a handful of countries) and produce the ambitious scenario to give a strong signal to borrowing and donor governments alike that financing plans ought to be aligned with the SDGs. The ambitious scenario will help civil society to advocate for the borrowing government to indeed include the SDGs in its spending plans, which is what the IMF and World Bank say it should do anyway.

Borrowing governments could and should be more assertive and present ambitious spending plans to be integrated into the IMF’s baseline projections, because it is their legal obligation under human rights treaties.

Social protection is an important example of the kind of investments that countries need to make to realise human rights and reach the SDGs, and which need to be taken into account in the LIC-DSF. The positive impact of social spending on economic growth and exports (including long-term positive impacts on productivity) must also be considered in this context. The IMF Operational Guidance Note On Program Design and Conditionality states that IMF staff “should seek to protect social spending and mitigate the adverse effects of program measures on the poor and vulnerable” and “be mindful of the positive macro impact of social spending, via relatively high fiscal multipliers.”

[6] This section draws on https://library.fes.de/pdf-files/international/21247.pdf

We would also like to draw to your attention a recent critique of the cost estimates of the implementation of social protection floors in low- and middle-income countries which the ILO published last year. According to ILO, universal coverage would cost almost 20% of GNI in LIC, which is clearly unfeasible. According to Development Pathways, which challenges the ILO figures, the correct figure is more likely less than 4 percent.

Climate change

The Nordic countries are considered global leaders in the fight against climate change. We urge you to use that leverage to advocate for reform of the World Bank's climate finance policies. At COP29 in Baku, governments recognized the central role of the World Bank and other multilateral development banks (MDBs) in scaling up climate finance. The World Bank has a pivotal role to play in supporting developing countries' climate mitigation and adaptation efforts, but its credibility is undermined by systemic flaws–a lack of transparency, the debt-driven model, and continued support for fossil fuels. Nordic countries have long championed social equity, transparency, and ambitious climate action. We call on you to uphold these principles at the World Bank through five key actions:

1. Champion full transparency and independent monitoring of climate finance

The World Bank reported delivering a record $38.6 billion in climate finance in fiscal year 2023, which is a 22 percent increase in climate finance compared to the previous year. However, a 2024 Oxfam report revealed that much of this climate finance lacked clear, traceable accounting. The methodologies used to classify projects as climate finance remain opaque, inconsistent, and lacking in independent verification. Without robust, third-party monitoring and transparent reporting—including project-level data and community consultation—trust in the World Bank's climate finance commitments will continue to erode. We urge you to advocate for:

- mandatory, independent verification of all reported climate finance flows;
- transparent, project-level reporting and publicly accessible data; and
- systematic engagement with affected communities and civil society.

2. Call for a fossil-fuel exclusion policy

Reports show that, despite its climate commitments, the World Bank has not excluded fossil fuel investments from its portfolio. While the Bank has ended direct financing for upstream oil and gas, it continues to finance fossil gas infrastructure and reforms that incentivize fossil fuel dependence. Some civil society analyses suggest that Bank policy advice may, in certain contexts, incentivize fossil fuel extraction as a means to service debt or boost revenue. This continued support for fossil fuels stands in direct contradiction to the Bank's own climate ambitions as well as the goals of the Paris Agreement. We urge you to:

- advocate for a clear, time-bound fossil fuel exclusion policy across all World Bank operations;
- advocate for a phase-out of all direct and indirect fossil fuel financing, with immediate termination of support for exploration and infrastructure incompatible with the Paris Agreement; and

- ensure that World Bank policy advice does not encourage fossil fuel exploitation as a revenue-generation strategy.

3. Prioritize grant-based climate finance and debt relief

Currently, loans constitute a significant majority of climate finance, with a substantial portion being non-concessional. This loan-heavy model forces many climate-vulnerable countries to exploit fossil fuels to service their debts. Moreover, without debt relief, many developing countries may need to use new climate loans to repay existing creditors, undermining their ability to invest in climate change mitigation and adaptation, and to address loss and damage. We urge you to:

- ensure that all climate finance to the poorest and most climate-affected countries is delivered on highly concessional terms or through grant-based mechanisms; advocate for coordinated debt cancellation or restructuring that free up fiscal space for countries to invest in climate change mitigation and adaptation; and
- ensure that climate finance is accompanied by technical support to strengthen capacity of affected countries to address climate change related issues sustainably

4. Demand a just and effective approach to climate adaptation finance

Despite growing needs, the World Bank still falls short of delivering a 50:50 balance between mitigation and adaptation finance—a long-standing demand from developing countries and civil society. Moreover, much of the finance provided for adaptation projects—such as flood protection, early warning systems, and resilient infrastructure—is delivered as loans, even though they rarely generate direct financial returns. Climate-vulnerable countries urgently need grant-based adaptation support to build long-term resilience. We call on you to:

- ensure the World Bank commits to a minimum 50:50 allocation between mitigation and adaptation finance;
- advocate for adaptation finance to be grant-based, particularly for low-income and climate-vulnerable countries; and
- prioritize projects that serve the needs of the frontline communities suffering the effects of a crisis they did not cause.

5. Reject weak Climate Resilient Debt Clauses and ineffective debt swaps

The World Bank has introduced Climate Resilient Debt Clauses (CRDCs) in some loan agreements to allow for suspension of debt payments after extreme climate events. CRDCs offer only temporary relief, however, and interest continues to accrue during suspension periods. Similarly, recent experiences with debt-for-nature or debt-for-climate swaps reveal that they provide limited debt relief, involve high transaction costs and third-party fees, and in some cases, have been critiqued for bypassing democratic processes or failing to protect local communities' rights. We urge you to:

- reject the use of CRDCs and debt swaps as substitutes for comprehensive, long-term debt relief solutions; and
- advocate for comprehensive, fair, and transparent debt relief frameworks that incorporate climate vulnerability, human rights, and biodiversity considerations.

Gender equality

Globally, we have seen a rapid increase of anti-gender rhetoric and narrative for many years, but clearly the development in the political landscape in the US is reinforcing this trend in a very worrying way. We know from the last Commission of the Status of Women conference in New York, that the US state department issues a statement calling gender mainstreaming “problematic” and that they will not accept “unhealthy and extremist language”.

We understand that similar attempts have been made by the US in regards both to the IDA packages (contesting mentions of gender and climate, among other things) and in the language at the pandemic fund. The Pandemic Fund Board as we understand removed "tricky terms" – such as gender.

In this context, Kvinna till Kvinna would like to highlight the importance of WB, as an institution, continuing to have an institutional commitment to gender equality. The Bank has a critical role to play in holding the line on gender commitments, and its implementation plan for the gender strategy must move forward and focus on content, financing and include substantial consultations with women’s rights organisations.

This is also relevant in regards to the current context of shifting priorities and cut in development aid support by several governments. The Bank has an even more critical role to play in upholding its gender commitments in the face of receding financing for gender-relevant and gender-transformative projects and programmes. Therefore, the Bank's continuous work ahead must reflect investments not only for women’s economic rights / autonomy but in universal public and social systems, including health, education, social protection, response service to GBV and child care services; and make plans to measure *impacts*, aligned with metrics that reflect the SDGs and human rights frameworks; and continue to substantially consult with women’s rights organisations, workers associations, and local civil society.

Questions:

- Can you give us an update on developments regarding terminology (for ex gender, gender mainstreaming) within the Bank? How can the Nordic-Baltic Constituency ensure the continuous WB support for gender commitments?
- We understand that the WB gender team is now working with country teams in the fast track countries to discuss how to proceed in regards to implementation of the gender strategy. As we have understood, there has not been much progress. We would like an update on the process to implement the gender strategy, and on what the N-B Constituency can do to support the implementation and push for a stronger commitment within the WB?
- We would also like to know if new gender equality targets have been set, alongside with the ones presented at the annual meeting (1. 300 million women with broadband connections; 2. 250 million women in social protection programs; 3. 80 million women led businesses and entrepreneurs provided with capital)?

IDA21

We Effect welcomes the focus on gender-based violence, childcare and women's economic empowerment in IDA21 and sees that it is a coherent system-oriented approach that We Effect has good experience in. Moreover, many governments find care solutions a safe entry point for women's rights in the current shifting landscape.

We also welcome the fact that the results will be at the 'outcome' level which is good as it provides a more process-oriented understanding of how changes around gender equality and women's rights and its nonlinear process of change occur. However, we lack qualitative measurement instruments or evaluations that can provide an understanding of the resistance/non-linear change that is taking place. Moreover, we lack the missed opportunity of gender mainstreaming in all result areas and the role of civil society.

Questions:

- How will Nordic-Baltic ED move forward / support / internally advocate with IDA21's policy commitment on jobs, gender-based violence and childcare in this fast changing environment?
- What opportunities are there in the work ahead to ensure qualitative results and gender mainstreaming across all scorecards/result areas? We know that local CSOs can play an essential role in monitoring and follow-up, which is not clearly defined. This can result in missed opportunities for leveraging our expertise and grassroots connections.

In addition, We Effect acknowledges the enhanced focus on new and better jobs, Gender equality, private investments and fragility, conflict and violence. Further, the IDA21 policy architecture outlines the relationship between policy commitments and Better Bank commitments and how that leads to enhanced outcomes. Considering the rights-holders and the need to embrace rights based approach in development, the questions that we would ask are;

- What consumer protection mechanisms have been considered to ensure that the end users and payers of the credits (citizens) derive optimal value from the credit?
- Does the Bank provide support in analysing cost of delivery of credit vs the anticipated outcomes? This would be useful as a way of demanding that more benefits accrue to the communities than to the facilitators/intermediaries. Better still ensure a triple win for the BAnk, intermediary and community.
- Are there plans to include some qualitative measurements? This would support understanding the non-quantitative aspects of change and barriers that constrain the outcomes related to the 4 focus areas under IDA21.
- What is the position of the Bank when it comes to inclusive decision-making in relation to access to credit, implementation and follow-up? It might be useful for the Bank to establish a mechanism (non-partisan driven) which brings onboard the priorities of communities.
- How does the Bank support countries to minimise overborrowing and maximise on credit outcomes?

Fragility Conflict and Violence Strategy

The current FCV strategy is up for revision. At Kvinna till Kvinna's last meeting with staff from the FCV team, they were working to frame the revision of the FCV strategy, ahead of consultations that were planned for after summer. It is excellent that there has been a gender and FCV approach paper, while also worrying that the approach paper does not include the triple nexus of gender- FCV and climate crises.

FCV is closely linked to the climate and environmental crises, which in turn heavily affects levels of conflict and fragility/stability -- not least in already conflict affected settings. In developing countries, women and girls are disproportionately affected by both conflict and climate/environmental crises. Unequal power structures add on to the vulnerability of women and girls.

When GBV increases as a direct result of increased levels of conflict, insecurity and climate related disasters, women's rights organisations are crucial actors to work with protection, shelters and legal advice to victims/survivors. Women also often have knowledge about the needs of their communities, they see early warning signs of conflict that get lost when they are left out of discussions and decision-making. Inclusion in itself is an act of prevention and makes actions and contributions more sustainable. Kvinna till Kvinna would like to see:

- Align the revised strategy with the UN Women Peace and Security agenda, incorporating also aspects related to climate and environment crises and climate security.
- Include engagement with and funding of the actors that have the knowledge in responding to gendered violence in a meaningful way.

Questions:

- FCV and gender equality are priorities, as we understand, for the N-B Constituency, so we wonder what your reflections are on the above and how you are/will be engaged? It would be appreciated to have an update on if the process of framing the strategy is finalised and what it, in that case, looks like?

Financing of big dams

In the 20th century, the World Bank was a major funder of mega-dams. Over time, criticism mounted against these projects due to their devastating human rights, environmental, and economic impacts. Mega-dams have displaced millions of people—often Indigenous and local communities—without adequate consultation or compensation. They have inundated forests, disrupted critical freshwater ecosystems, driven biodiversity loss, and altered river systems in ways that are often irreversible. Moreover, the stagnant reservoirs created by these dams emit substantial quantities of methane, a greenhouse gas many times more potent than carbon dioxide.

The withdrawal of the World Bank from funding the highly controversial Sardar Sarovar Dam on the Narmada river in India was a milestone, which also led to the creation of the World

Bank Inspection Panel in 1993. In 2000, the World Commission on Dams challenged the efficacy of large-scale hydroelectric projects, and revealed that large dams had failed to live up to their promised benefits. The report contributed to a growing international backlash against large-scale hydropower and prompted the World Bank to decrease funding such projects for over two decades. During the last 10 years, the World Bank has supported very few big hydro projects.

We are deeply concerned by recent signals that the World Bank is reversing this progress. Its renewed support for projects such as the Rogun Dam in Tajikistan, the Upper Arun Dam in Nepal, and the Inga 3 project in the Democratic Republic of Congo raises serious alarm. We urge you to:

1. Reject support for the Inga 3 project and other mega-dams that pose grave risks to people, biodiversity, and the climate. Inga 3 would further displace frontline communities already harmed by Inga 1 and 2, who remain uncompensated. The project's electricity is intended for industry and export markets—not the tens of millions of Congolese still lacking electricity access.
2. Commit to a just energy transition by investing in decentralized, renewable energy systems that are socially inclusive, ecologically sustainable, and locally appropriate. Experts have shown that wind and solar could meet energy needs more effectively and equitably than mega-dams, without flooding ecosystems or violating human rights.
3. Ensure all World Bank energy investments uphold the principles of climate justice, environmental integrity, and human rights. This includes requiring comprehensive environmental and social impact assessments and obtaining the free, prior, and informed consent of all affected communities—particularly Indigenous peoples and those with historical grievances.

Question:

- What is your position on the World Bank's renewed interest in big dams in general, and Inga 3 in particular?

Debt Justice Norway

Estonian Roundtable for Development Cooperation (Arengukoostöö Ümarlaud)

The Kvinna till Kvinna Foundation

We Effect

Norwegian Forum for Development and Environment

Swedish Society for Nature Conservation

Lithuanian NGDO Platform

ACT Church of Sweden