Ms. Satu Santala
Executive Director, the Nordic and Baltic countries
World Bank Group
1818 H Street, N.W.
Washington, DC 20433

1st October 2013

Dear Ms. Santala,

Joint CSO letter to the Nordic-Baltic ED on the occasion of the World Bank annual meetings 2013

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 a few issues of concern to us prior to the up-coming meetings.

Principles on Responsible Lending and Borrowing

Principles for responsible lending and borrowing are necessary for establishing a more sustainable architecture for loans, and ensuring that human rights are not violated. In the wake of the global financial crisis, and with an overhanging risk that new unsustainable debt burdens are being created, they are even more crucial.

In April 2012 UNCTAD launched Principles on Responsible Lending and Borrowing, and, in August 2013, Norway presented the first creditor debt audit applying these principles. These are historic milestones towards better lending and borrowing practices, but so far Norway is the only country in the Nordic-Baltic constituency that has endorsed the principles.

We urge all the Nordic and Baltic countries to endorse the UNCTAD Principles on Responsible Lending and Borrowing, and the Nordic-Baltic constituency to promote and advocate for the application of these principles to development project financing by the World Bank. In accordance with this, the Bank should also audit/assess their outstanding loans according to these principles.

The Arab Spring has once again revealed that the World Bank does not comply with key principles of responsible financing such as due authorization of borrower countries' agents seriously. In consequence, it has contributed to the build-up of illegitimate and ostensibly illegitimate debt that is now burdening and destabilizing young democracies. On the basis of that evidence, an audit of outstanding World Bank loans against responsible lending and borrowing standards seems necessary.

Safeguards

We are positive to a revision of the safeguards with the aim of modernizing them. However, we remain concerned that **the scope is too narrow. As currently framed, environmental and social standards (safeguards) will only apply to the World Bank's shrinking portfolio of project finance, but not to other Bank lending instruments.**

For example, 40% of the Bank's forest sector lending is supported by **Development Policy Loans** (DPLs).[1] Investigations by the World Bank's Inspection Panel have found serious problems when policy-based lending is used for forest sector reforms without applying safeguards. For example, the Inspection Panel report on the Democratic Republic of Congo found that lending had focused on revenues to be generated by increased industrial logging, while ignoring environmental and socio-economic issues. As a result, according to the investigation, no attention was paid to the 40 million people who rely on forest resources for their subsistence.[2]

We recognize the importance of democratic ownership and support the use of debtor country systems for financial management, procurement and impact assessments. However, we are also of the opinion that the **Bank has a co-responsibility to ensure that the loans given have a development effect and do no harm**. Increasing reliance on country systems should therefore go hand in hand with scaled-up capacity and **building support for debtor countries' democratic institutions, accountability systems, and nationally owned safeguard policies**.

The safeguards under revision are to a great extent gender blind and fail to recognize gender as an influencing factor in projects and programs. This gender blindness of the safeguard policies leads to no requirements to protect women from potential negative impacts associated with the World Bank's lending operations. It is therefore of great importance that the World Bank has defined gender as one of seven emerging areas that the current review and update process should consider. **We recommend that the revised safeguard policies incorporate collection of sex-disaggregated data in every investment, mandatory implementation of gender impacts risk assessments, proactive, mandatory engagement of impacted women inn all project development stages and mandatory gender-sensitive grievance mechanisms**.

We would also like to point to the IEG review from 2011[3] which found that inadequate budget and staff resources for supervision of safeguards is a major cause of project failures leading to Inspection Panel claims from people harmed by Bank operations. We therefore recommend that the Bank **increases resources to the Inspection Panel** in order to strengthen the safeguard mechanism.

The new safeguard policy framework should also **include a policy on labor standards** which incorporates the ILO's four core conventions and **be designed so it reflects the new UNCTAD principles on responsible sovereign**

[1] The World Bank Group, Forests and Trees in Sustainable Landscapes, Action Plan , FY 14-16, Concept Note, May 20, 2013.
[2] The Inspection Panel, Investigation Report, Democratic Republic of Congo: Transitional Support for Economic Recovery Credit (Terso) (IDA Grant Nº H1920 DRC) and Emergency Economic and Social Reunification Support Project (EESRSP) (Credit Nº 3824-DRC and Grant Nº H 064-DRC). Report No 40746-ZR, August 31, 2007.
[3]AnisDani, Ade Freeman and Vinod Thomas.*Evaluative Directions for the World Bank Group's Safeguards and Sustainability Policies*. World Bank Evaluation Brief No. 15 (2011), pp. 10-14.

lending and borrowing.

Energy Policy

The recent policy paper by the WBG, *Towards a Sustainable Energy Future for All: Directions for the World Bank Group's Energy Sector,* has been heralded as announcing that the WBG is phasing out its support of fossil fuels. But a close reading reveals that it is only "greenfield" coal finance which is ruled out, and not even then completely. The WBG now states that in exceptional cases, and when it can be justified as "meeting basic energy needs in countries with no feasible alternatives to coal", the WBG will continue with this unsustainable practice. In fact, the new policy directive also gives priority to fossil gas as a lesser evil in terms of greenhouse gas emissions (as compared to coal and oil) but apparently without being worried that it still is a fossil energy carrier which contributes to climate change.

Although making new coal finance exceptional is a step in the right direction, we would like to highlight that it is not meeting the demands which environmental and pro-poor people organisations around the world have demanded of the WBG. **We urge the Nordic-Baltic constituency to act for a rapid phasing out of all fossil energy finance, and an equally rapid increase in the finance available for renewables, at the same time securing the right of access to energy for poor and disadvantaged populations.**

We look forward to hearing your response to these issues.

Yours sincerely,

Timo Lappalainen, Executive Director, Kepa
Annica Sohlström, Secretary General, Forum Syd
Bo Forsberg, Director, Diakonia
Ingrid Aas Borge, leader, Changemaker
Anne-Marie Helland, General Secretary, Norwegian Church Aid (Kirkens Nødhjelp)
Gina Ekholt, Director, Norwegian Coalition for Debt Cancellation (SLUG)
Andrew Preston, Director, Norwegian Forum for Environment and Development (ForUM)