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## **Joint Letter to the Nordic Ministers and Executive Directors prior to the World Bank and IMF Spring Meetings 2008.**

We, Nordic civil society organisations working for sustainable development and the eradication of poverty, would like to raise two issues of concern to us prior to the up-coming meetings and we look forward to your response to these issues:

- Responsible lending and illegitimate debt
- The “Clean Energy for Development Investment Framework” will not help the poor

### **1. Responsible lending and illegitimate debt**

The issue of ‘responsible’ or ‘sustainable’ lending has become an intensely discussed topic following recent debt cancellation under the Multilateral Debt Relief Initiative (MDRI) agreed upon in 2005. A key driver behind this, is the substantial increase of loans from so called “new lenders” and in particular Chinese lending to Africa. This has, rightly or wrongly, generated a concern among traditional lenders and development institutions that new low- or non-concessional loans will threaten the debt sustainability of poor borrowing countries and thereby trigger a new debt crisis. Concerns have also been raised regarding the social and environmental impacts of new loans to post MDRI and other developing countries.

The Norwegian government has further stimulated the debate on responsible lending, both future and past lending, by its decision in 2006 to cancel the debts owed by five countries at a value of USD 80mn on the grounds of “development policy failure” and by acknowledging “shared responsibility” for the loans. No other creditor has admitted co-responsibility for any loan failure.

The G20 are currently discussing what they have described as a ‘Responsible Lending Charter’, following an initiative by the G8 Finance Ministers who have stressed the need for global standards.

The debate about responsible lending and borrowing should be welcomed. A key weakness in the existing official strategies in tackling this - including the World Bank/IMF Debt Sustainability Framework, IDA’s so called Free Rider Strategy of and the recently adopted OECD Guidelines for Export Credits and Credit Guarantees - is that the focus is on debt sustainability and the payback capacity of borrowing countries and assessing lending responsibility from this angle. Another key weakness of current initiatives, including the before mentioned, as well as the Equator Principles adopted by private banks, is their voluntary nature.

Avoiding the build up of future unsustainable debts is crucial. However borrowers’ and lenders’ responsibilities should go far beyond that. Other key aspects include whether the loan in question supports national development priorities, democratisation, human rights, environmental safeguards and transparency.

To contribute to the debate, the European Network on Debt and Development (Eurodad) has in a broad process of civil society and expert consultation, developed a *Charter on Responsible Financing* (January 2008, available at [www.eurodad.org](http://www.eurodad.org)). The Charter outlines the essential components of a

responsible loan, which aim to ensure that terms and conditions are fair, that the loan contraction process is transparent, that human rights and environments of recipient nations are respected and repayment difficulties or disputes are resolved fairly and efficiently. Many of the provisions outlined in Eurodad's charter are drawn from international treaties and conventions to which lender and borrower nations are signatories.

With this Charter, civil society organisations are calling on creditor and borrower countries to adopt a set of internationally recognised legal standards for responsible financing. Such responsible financing standards are much needed to improve the way loans are extended to and taken-on by sovereign states. The Nordic countries are well placed to contribute to ensuring that this will happen. In the wake of increased lending by China and other so called "new lenders", it is also clear that a constructive dialogue, beyond finger-pointing, is needed between traditional and new lenders as well as borrowing countries to agree on such global standards. Nordic countries should take the initiative to such triangular dialogue approaches within multilateral fora.

In previous Nordic letters we have raised the issue of illegitimate debt and the need for the cancellation of these debts stemming from an irresponsible lending practice in the past. This should be seen as intrinsically linked to the need for future responsible lending and borrowing practices.

The debate on illegitimate debt has advanced somewhat. The World Bank has now developed a Paper on Odious Debt, a process initiated by the Norwegian government. Another paper on the topic has been developed by UNCTAD. Although civil society organisations have welcomed the initiative of the World Bank paper, serious concerns have been raised with the process of developing and the content of the paper. Comments on the paper have been developed by Eurodad summing up some of these concerns, and we encourage you to read these (World Bank Paper on Odious Debt: Dismissive and Limited, 13 March 2007).

In order to be able to give input to the paper civil society organisations have urged the World Bank to conduct a roundtable discussion. The World Bank has agreed to this and will host a roundtable on 14 April 2008 in Washington, and we encourage you to attend this and support this and other initiatives to further develop mechanisms to address illegitimate debt and advance responsible lending and borrowing.

**In sum, we Nordic civil society organisations call upon the Nordic representatives in the World Bank and IMF:**

- to take the initiative and contribute to the development of a set of internationally recognised legal standards for responsible financing. Such standards should go beyond a mere focus on debt sustainability and define borrowers' and lenders' responsibilities in terms of whether the loan in question supports national development priorities, democratisation, human rights, environmental safeguards and transparency.
- to take the initiative and contribute to constructive triangular dialogues between traditional and "new lenders" including China, and borrowing countries with the purpose of agreeing on such global standards.
- to take further initiatives to contribute to the advancement of the discussion on illegitimate debt and the recognition of the concept of "co-responsibility" of creditors for how debts were contracted. In the near future we encourage you to read the comments on the World Bank Paper on Odious Debt developed by Eurodad. We also encourage you to attend the upcoming roundtable discussion hosted by the World Bank on 14 April 2008 in Washington, and ensure that the results of the roundtable discussions will be taken into account in policies of the World Bank.

## 2. The “Clean Energy for Development Investment Framework”

While developing countries, and the poorest people who live there, are the most vulnerable to climate change, they are also most in need of expanded energy services to meet their development needs.

Approximately 2.4 billion of the world’s poorest people still lack access to efficient, clean cooking and heating fuels and 1.6 billion are still without electricity. Lack of access to basic energy services has serious social, economic and environmental consequences. In many developing countries, most women spend several hours collecting firewood every day.

Renewable energy technologies such as wind, solar, modern biomass, geothermal and small hydropower could generate a double dividend for the environment and poverty reduction, and as such present logical responses to the problems of climate change and energy poverty. Renewable energy sources present the possibility of reducing greenhouse gas emissions that lead to climate change, and they do not produce the other air pollutants that the burning of fossil fuels creates. Renewable energy also offers countries around the world the chance to improve their energy security and spur development.

As a key player in international development the World Bank could play a leading role in providing a framework for “fast-tracking” renewable energy. The World Bank’s energy lending has focused on centralized, large-scale, grid-based thermal and hydropower projects and on the privatization of public power utilities. In spite of many promises to “green” its energy lending over the past 15 years, the World Bank continues to invest 2 to 3 billion US\$ a year in greenhouse gas-producing energy projects, which fuel climate change and fail to help the world’s poor.<sup>1</sup> Statistics from MIGA shows that although the share of renewable energy in World Bank projects has increased during the last couple of years, the majority of World Bank investments still goes to fossil fuels.<sup>2</sup>

The World Bank’s *Clean Energy for Development Investment Framework* will not deliver the desired benefits. It is based on scenarios for global greenhouse gas emissions at levels that would allow “dangerous climate change” as defined by the Intergovernmental Panel on Climate Change. The framework also promotes additional funding for energy technologies that have negative social and environmental impacts – such as large scale dams (and speaks favourably on nuclear power).

The framework does not catalyze the necessary massive shift to renewable energy technologies that could create the double dividend of environmental benefits and poverty reduction. It is fundamental that the World Bank’s new “Strategical Framework for Climate Change and Development” (SFCCD), which will be discussed during the spring meeting, includes clear targets and a more ambitious roadmap for phasing out fossil fuel investments.

**The Signatories call on the Nordic representatives in the World Bank, and your colleagues in like-minded countries, to ask the World Bank to do the following:**

- Substantially reduce subsidies for fossil fuels and redirect energy financing to renewable energy:  
About 82% of World Bank approved financing for fossil fuels development goes to projects that export energy resources to the north and do not improve access of poor people to electricity and other energy sources.<sup>3</sup> Renewable energy technologies should be at the centre of the World Bank’s support for the energy sector in developing countries. The World Bank should direct its funding towards effective action to attain the double dividend of poverty reduction and combating climate change.

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<sup>1</sup> How the Sells the Climate and Poor People Short, Framework for Clean Energy and Development September 2006.

<sup>2</sup> [http://www.miga.org/documents/renewable\\_energy\\_12\\_4\\_07SCREEN.pdf](http://www.miga.org/documents/renewable_energy_12_4_07SCREEN.pdf)

<sup>3</sup> How the Sells the Climate and Poor People Short, Framework for Clean Energy and Development September 2006

- Significantly step up efforts to meet the basic energy needs of the poor:  
Access to electricity and fuel for cooking and heating is a basic need. The rural poor are in greatest need of access to electricity, motive power, and efficient, clean and affordable cooking and heating fuels. Renewable energy technologies based on local availability are particularly appropriate options to support rural off-grid electrification. Multilateral and bilateral financial institutions should massively step up their efforts to support rural electrification and renewable energy programs that are owned and controlled by local people and based on their needs.

Yours sincerely,

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