

Mr. Peter Eriksson, Minister for International Development Cooperation

April 6, 2020

## **World Bank Spring Meetings 2020**

Dear Mr. Eriksson,

We, the Nordic-Baltic civil society constituency working for the eradication of poverty, a healthy climate and just 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 raise some issues of concern ahead of the 2020 spring meetings.

### **Global macroeconomic implications of COVID-19**

In these unusual and unexpected trying times, with regards to macroeconomic implications of the COVID-19 pandemic, the IMF and the World Bank must take a lead in supporting developing nations responding to the crisis. Before the corona-crisis, 34 out of 73 low-income countries were already in debt distress or in high risk of debt distress. With commodity prices plunging and trade grinding to a halt, indebted countries will struggle to repay their sovereign debts. The number of countries in debt distress will most likely increase rapidly without forceful intervention. We recognize the fund and the bank supporting the call of African finance ministers for a moratorium on interest and principal payments in the wake of this global crisis. We also welcome the call by the Bank and the Fund on bilateral creditors to suspend debt payments.

Funds are needed for the strengthening of the capacity of underfinanced national health care systems and for strengthening social security capacity to mediate the negative effects of impending unemployment. **The World Bank should concede a debt moratorium on its own lending to both low-income and emerging market economies and call on other multilateral, bilateral and private creditors to do the same.** The eligibility criteria of the World Bank Pandemic Emergency Financing Facility should also be reformulated in order to assist a larger number of affected countries. It is counter intuitive that a financing facility aimed at preventing pandemics should pay out only after the pandemic outbreak is a fact. This incoherence must be addressed in a revision of provisions.

Despite these positive actions of the bank of the fund, it is necessary to underline that **this crisis should not be utilized to further the failed policies of privatization of public goods and deregulation of economic activity, that David Malpass has called for in response to the crisis.** We now see the grave consequences of years of dismantling of public healthcare and public social safety nets. In responding to this crisis, that is both a health crisis and an economic crisis, focus should be on the strengthening of state capacity to meet its citizens health and economic needs through strengthening of regulatory and economic capacity. **Emergency financing must be free of economic policy conditionality and should be given as grants.** A temporary debt moratorium must also be followed by a subsequent debt reprofiling process including substantial haircuts to principals by private lenders. The need for a debt reprofiling process should lead towards a structured global debt workout mechanism under the auspices of the UN.

The Covid-19 pandemic is a global crisis, but long-term detrimental effects of the public health crisis coupled with economic contraction are likely to be significant in developing countries which lack both sufficient health care and social protection systems, and the fiscal and monetary space to counteract recession. **The IMF and World Bank should work together** to ensure that the crisis is followed by new and better policies for sustainable development, that ensure democratic and fiscal space in creating well-functioning national universal welfare systems and a healthy global climate. This should include tax reforms that increase the progressivity of taxes and thus diminish inequality. Rather than pushing countries to focus narrowly on the amount of domestic resources they can mobilize, the IMF and World Bank should underline the importance of policy coherence for development and the need to attain all the SDGs including goal number 10 on inequality.

### **Public-Private Partnerships**

The World Bank Groups promotion of public-private partnerships have implications for country debt sustainability. Positive residuals associated with government guarantees and contingent liabilities related to off-balance sheet accounting practices have been some of the main drivers of present debt build-up in developing countries.<sup>1</sup> The World Bank Group should **strengthen advice on accounting practices and transparency measures to prevent build-up of hidden costs and debt burdens in project countries.**

We also have strong concerns about the World Bank's role in pushing public private partnerships in education, and in particular its role in driving for-profit education providers across developing countries. The IFC invests in Bridge International Academies; a Boston based commercial school chain expanding its numbers of schools across the African continent. A 2018 Oxfam report also shows that the World Bank on several occasions has conditioned loans on privatising education markets. The report also finds examples of the World Bank advising governments to allow for-profit education providers in their school systems.

The Nordic-Baltic seat has previously played an important role in working against harmful policy conditions at the World Bank. Last year, board constituency members who also sit at the board of the Global Partnership for Education spoke out strongly against GPE funds being used in support of for-profit education providers. **We encourage you to speak out strongly against financial support to and policy conditions and advice supporting for-profit education providers**, and we stand ready to support you if you do.

### **Climate and Energy**

Global climate leaders and scientists pitched 2020 as a vital year for climate action to slow down global warming. However, as the global COVID-19 pandemic continues to worsen, major political climate events are either being postponed or cancelled. However, countries that are vulnerable to climate-related disasters and air pollution from fossil fuels, will also be hit hard by a health crisis. In short, **the urgent need for coordinated climate action remains pressing and cannot wait as the climate crisis gets worse**, despite the new complications which have emerged in recent months.

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<sup>1</sup> IMF Policy Paper: The Evolution of Public Debt Vulnerabilities in Low Income Economies (2019)

The Nordic-Baltic seat has been a strong advocate for climate action with the World Bank. In the time of crisis, we hope that it continues to **ensure that the World Bank stays on course and scales up climate action**. We are calling on the World Bank to demonstrate leadership and foresight by ensuring that climate considerations are mainstreamed into the short-to-medium term recovery from COVID-19. We cannot afford to continue to spend public money on bailing out ‘business as usual’ interests, who will be unable to cope in a low-carbon world that will necessitate developing new, multi-faceted forms of resilience. We are entering a complex new epoch, and the Bank’s approach must be fit for purpose. This means the Bank must cease investing in fossil fuels, scale up investments in renewable energy, and expand finance for energy access with distributed renewable electricity and clean cooking to reduce air pollution and health problems, while embedding these efforts in a much wider ‘just recovery’ from the COVID-19 crisis, that can serve as a bridge to a ‘just transition’ to a zero-carbon future, more generally.

Best wishes,

Act Svenska kyrkan

Diakonia

Fellesrådet for Afrika (NO)

ForUM for Utvikling og Miljø (NO)

Kirkens Nødhjelp (Norwegian Church Aid)

Mellemløklig Samvirke (ActionAid DK)

OxfamIBIS (DK)

SLUG – Nettverk for rettferdig gjeldspolitikk (NO)

The Swedish Society for Nature Conservation

Additional recipients of this letter:

Mr. Geir Hilmar Haarde, Executive Director, Office of the Nordic-Baltic Constituency

Mr. Rasmus Prehn, Minister for Development Cooperation

Mr. Dag-Inge Ulstein, Minister of International Development