**Briefing to World Bank European Executive Directors**

**World Bank Group’s response to the Covid-19 induced crises**

**Virtual meeting, 29th October 2020**

This briefing builds upon the previous document shared in advance of the April 2020 meeting with European World Bank Executive Directors and serves to deepen the dialogue about the World Bank’s response to the health, economic and social crisis triggered by the Covid-19 pandemic. It is our hope that this briefing offers a point of departure for an open and critical discussion of the issues raised and proposed actions. Our points below are organised around five topics: focus on the IFC; structural reform agenda; fiscal space; healthcare; and transparency and engagement.

**Background**

The World Bank’s *Poverty and Shared Prosperity 2020* [report](https://openknowledge.worldbank.org/bitstream/handle/10986/34496/9781464816024.pdf) documents the devasting interplay between the pandemic and pre-existing challenges such as rising inequality, climate change and increasing social instability. Indeed, at the core of the concerns outlined below and in the April briefing is the understanding, based on substantial evidence, that the pandemic has ‘merely’ brought more clearly to light and accelerated the consequences of the pre-existing flaws in the predominant development model promoted by the Bank. As UNDESA [noted](https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/PB_81.pdf), “even before the pandemic the world was off track to meet the SDGs”. While UNCTAD’s 2020 Trade and Development report [stressed](https://unctad.org/system/files/official-document/tdr2020_en.pdf) that, “an inclusive recovery [must address] a series of pre-existing conditions…including high and entrenched inequality, sluggish growth, weak investment, endemic wage repression in the developed world and precarious working conditions in the developing world.”

**Key concerns:**

1. **Focus on the IFC:** Recent reports and analyses of the Bank’s response to the Covid-19 pandemic demonstrate that Bank’s initiatives, grounded on its ‘Maximising Finance for Development’ (MFD) approach, continue to contribute to the very dynamics exposed by the Covid-19 crisis. The recent Eurodad and SOAS University of London [report](https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/1101/attachments/original/1602585821/WBG_covid_funding_FINAL.pdf?1602585821), for example, documented that rather than supporting public provision of essential healthcare and social protection, 60% of the Fast Track Covid-19 Facility resources were allocated to the IFC. The report notes that, according to information publicly available as of mid-August, “by late June 2020, 68 per cent (in value terms) of IFC Covid-19 projects targeted financial institutions” adding that, “around 50 per cent of IFC supported companies are either majority-owned by multinational companies or are themselves international conglomerates.” While there is no doubt that the private sector is an essential economic actor, and that companies are in need of support to navigate the impacts of the crisis, the question posed by substantial evidence concerns whether the Bank’s approach is well suited to deliver for the countries, sector and companies that are suffering the impacts of the pandemic the most. And, even more, to support the jobs and economic transformation agenda to which the Bank is committed. Evidence indicates that the Bank’s approach fails to assist local SMEs and vulnerable populations in the vast informal sector.

The IEG’s 2019 synthesis [report](https://ieg.worldbankgroup.org/sites/default/files/Data/Evaluation/files/SME_Synthesis.pdf) on support to SMEs notes that “there remains a lack of evidence that lines of credit…is effective and beneficial. Similarly, evidence is limited on the benefits to SMEs of most value chain interventions.” The IEG’s 2019 [report](https://ieg.worldbankgroup.org/sites/default/files/Data/Evaluation/files/CreatingMarkets.pdf) on creating markets adds that, “evidence of the direct welfare implication of market creation efforts for the poor is lacking”. Casting additional doubt on the reliance on the IFC, a 2019 Center for Global Development (CGD) [analysis](https://www.cgdev.org/blog/new-model-ifc-good-deal-ida-countries) on the implications of IFC’s new funding model stressed that, while in 2011 “the IFC delivered US$600 hundred million in profits to IDA...In 2018…the IFC was a net recipient of IDA funding. In the three-year time span [IDA]…will hand over US$2 billion to IFC.” As the CDG noted, these are essential concessional resources no longer available to states.

As the Global Unions [statement](https://www.ituc-csi.org/IMG/pdf/global_unions_statement_imf-wbg_10-2020_en.pdf) to the World Bank and IMF annual meetings stressed, we believe that international financial institutions need to increase support for quality job creation, the real economy through “stimulus and approaches with a proven record of fostering inclusive growth, including industrial policy and comprehensive collective bargaining.” These require that the World Bank radically alter its approach, including to labour rights, which the statement noted has at times to contravened ILO conventions. On the other hand, while we welcome commitments made earlier this year with regard to transparency of IFC operations through financial intermediaries and the use of IDA funds to subsidise private sector companies, in the context of the Covid-19 pandemic, there is still significant information missing to provide a full picture of who benefits from the IFC support to the financial sector, including in IDA countries.

**II) Structural reform agenda:** The Bank’s use of the Covid-19 response to further promote its deregulation, privatisation and de-risking agenda is a cause for concern. The October [analysis](https://www.cgdev.org/sites/default/files/world-banks-covid-crisis-lending-big-enough-fast-enough-new-evidence-loan-disbursements.pdf) of the Bank’s disbursements by the CDG for, example, questioned the Bank’s “eagerness to deploy emergency financing quickly” proposing that the relatively limited use of Development Policy Loans (DPL) signals “instead a desire to use COVID relief as leverage to push a longer-term reform agenda.”

This approach is unacceptable. It refuses to address the failure of the privatisation and deregulation model and implies a slow and conditional response to an immense health, economic and social crisis. We strongly believe that the Bank should make use of “prior conditions” within its DPL only in highly proscribed circumstances, such as those required to guarantee Paris Accord alignment, to ensure due diligence in the use of the funds provided and where it can be demonstrated to increase the borrower’s capacity to meet their human rights obligations. The pandemic requires that the Bank finally live up to its rhetoric on country ownership by allowing countries to develop their own response and recovery strategies without economic policy interference.

The perils of the race to attract private investment are not limited to the developing world. Examples of this in Europe include the acrimony created by Irish Tax policy, opposition to the Portuguese use of golden visas or indeed the central issue of contention in Brexit negotiations: the level playing field. Adding to this, the well-documented European experiences with Public-Private Partnerships (de-risking *par excellence*) and persistent debates about illicit financial flows should raise serious doubts about the premise that the private sector, and particularly MNCs and large publicly traded companies, can play a developmental role without significant regulation and oversight.

1. **Fiscal space:** The pandemic has exacerbated debt sustainability problems of many low- and middle-income developing countries and has further exposed the central flaw in the MFD paradigm. As [emphasised](https://jacobinmag.com/2020/10/g20-world-bank-debt-service-suspension) by professor Daniela Gabor, in light of the unwillingness of the private sector to participate in the Debt Suspension Service Initiative (DSSI), “Poor countries are forced to prioritize social pain at the height of a pandemic for the uncertain promise of development-related inflows, on commercial terms and into commodified public services, at some point in the future.”

While the World Bank has emphasized the need to provide net positive financial flows to member countries, a recent analysis produced by [CGD](https://www.cgdev.org/publication/world-banks-covid-crisis-lending-big-enough-fast-enough-new-evidence-loan-disbursements) shows that action to date is this regard is insufficient. While approval of commitments by the IDA and IBRD are on track to meet the US$104 billion commitments target by June 2021, actual loan disbursements will fall short of the goal by US$25 billion. In many cases, individual countries are experiencing either marginal net positive flows, clearly insufficient to tackle the pandemic, or net negative flows. This situation cannot continue. The World Bank should call on its shareholders to substantially bolster the financing capacity of the institutions, particularly IDA – although it is important that the Bank avoids starting a fundraising race, competing for ODA resources that can be used elsewhere. Furthermore, the World Bank needs to be more transparent in its lending operations. The institution has to be accountable to the public through the provision of regular, clear and accessible update of its financial operations on a country-by-country basis. In addition, given the dire conditions of middle-income countries, which remain ineligible for the already inadequate DSSI, the Bank must urgently develop a mechanism through which these countries can be provided grants, rather than loans that exacerbate their debt profile as outlined below.

We maintain that the World Bank must participate in the G20 DSSI, as this is the most direct mechanism to free-up resources to tackle the pandemic. While the World Bank has refused to participate for fear of its credit ratings and preferred creditor status, the situation demands a bold response. A briefing by [Jubilee Debt Campaign UK](https://jubileedebt.org.uk/wp-content/uploads/2020/10/IMF-and-World-Bank-debt-cancellation_10.20.pdf) shows concrete mechanisms through which the World Bank could fund its participation in the debt suspension. Working in coordination with the IMF, profits from IMF gold sales and use proceeds from an IMF issuance of Special Drawing Rights would be enough to cancel all multilateral debt payments between October 2020 and December 2024. This would save US$70 billion for the poorest countries in the world.

1. **Healthcare:** Despite the World Bank’s efforts to support emergency health interventions, and last week announcement of US$12 billion “to finance the purchase and distribution of Covid-19 vaccines, tests, and treatments”, we are troubled by the World Bank’s role in the health sector. New [research](https://views-voices.oxfam.org.uk/2020/10/people-cant-afford-to-pay-for-health-care-in-a-pandemic-why-isnt-the-world-bank-doing-more-to-help/) by Oxfam reveals missed opportunities in the World Bank’s COVID health programming to tackle barriers to accessing healthcare and build up public health systems that serve everyone. After analysing project documents for the full set of emergency health projects in the Bank’s COVID-19 Strategic Preparedness and Response Program as of June 30th, covering 71 countries, Oxfam found that only 8 country health projects included any plans to address healthcare user fees, which exclude millions of people from lifesaving care. This is despite World Health Organization (WHO) guidance to suspend user fees for all essential healthcare from all providers during the pandemic, and despite the fact that 80 per cent of the project countries have out-of-pocket spending on health above the WHO’s indicated ‘safe’ level. These out of pocket payments exclude people, cause more deaths and slow down the COVID response. The World Bank should urgently correct course in its COVID-19 response and take action to ensure all people can access healthcare during this emergency.

We remain distressed that IFC’s Covid-19 resources have been used to support commercial private health facilities. As noted in a 2019 [article](https://onlinelibrary.wiley.com/doi/full/10.1111/dech.12517), the financialisation of healthcare favours “models that permit the extraction of revenue from situations of vulnerability.” In an October [open letter](https://www.theguardian.com/society/2020/oct/19/covid-19-exposed-catastrophic-impact-privatising-vital-services), five current and former UN Special Rapporteurs and Independent Experts stressed that it is “crucial that… the World Bank and the International Monetary Fund, stop imposing financialised models and the privatisation of public services on countries.” We reiterate our call for the IFC to stop its support to commercial private health facilities, which undermine public system building and that arguably has pernicious implications for women, lower-income or vulnerable populations.

1. **Transparency and engagement**: Increased pressure to “get money out the door” has raised clear challenges about transparency and stakeholder engagement. The IFC’s focus on financial institutions has fallen short of transparency and accountability, while questions remain about the very limited or lack of stakeholder engagement as World Bank projects are rolled out. This is taking place in the context of challenging conditions for CSO participation, given the COVID context, the shrinking space for CSOs to actively participate and increased reprisals against human rights activists by national governments. We, therefore, call on the Executive Directors to ensure that mechanisms are in place and used to guarantee adequate stakeholder consultation, as well as a stakeholder and trade union inclusive monitoring of environmental and social standards at the project level. It is key to ensure the implementation of the Bank’s and IFC’s labour safeguards, ensuring worker’s rights and occupational safety for all project workers.

**Recommendations:**

1. The WB should restore the balance between the public and private sector in its Covid-19 response, including in its modalities and instruments. IFC should be required to demonstrate that its investments, including through private commercial financial institutions, are reaching SMEs and the most vulnerable, including by tracking job quality.
2. The WB should make use of “prior conditions” within its DPL only in highly proscribed circumstances, such as those required to guarantee Paris Accord alignment, to ensure due diligence in the use of the funds provided and where it can be demonstrated to increase the borrower’s capacity to meet their human rights obligations.
3. The WB should increase transparency in its lending operations, which means providing regular, clear and accessible update of its financial operations on a country-by-country basis.
4. The WB should participate in the G20’s DSSI and continue to push for and eventually participate in debt reduction and cancellation.
5. The WB should establish a granting mechanism to middle-income countries in debt distress and in the meantime ensure they benefit from positive net flows.
6. The WB should follow WHO guidelines and assist countries end user fees for all essential healthcare from all providers during the pandemic and end the drive to privatise health services.
7. The World Bank should ensure that rapid response is not achieved at the sacrifice of stakeholder consultation and an inclusive process for project monitoring at implementation stage.