european network on
debt and development

Rue d'Edimbourg 18-26, 1050 Brussels, Belgium
+32 (0) 2 894 4640 · www.eurodad.org

Eurodad's proposals for a WB IDA20 replenishment package that delivers for the most vulnerable

IDA20 Replenishment

The 20th replenishment of the World Bank's International Development Association (IDA20) comes at a crucial time for countries struggling to control the impact of the Covid-19 pandemic. The replenishment - titled '*Building Back Better from the Crisis: Towards a Green, Resilient, and Inclusive Future'* - is estimated at $94 billion for the period between July 2022 and June 2025. While this amount cannot fully address the extreme impact of the pandemic, if it is properly designed and implemented it could be a vital source of relief for the most vulnerable.

The World Bank estimates that 97 million more people – many of them in Africa – will fall into extreme poverty in 2021. In April this year researchers at the International Monetary Fund estimated that low-income countries will need around US$200 billion over the four years until 2025 simply to recover from the pandemic, and a further US$250 billion to catch up with advanced economies. IDA replenishments are well placed to respond to some of the urgent needs of human development, jobs and economic transformation, climate change and debt cancellation, since IDA finances are a combination of grants and credit with long and concessional repayment periods. However, using these resources to support private sector solutions, such as IDA's Private Sector Window (PSW), is a risky endeavour which comes at the expense of the public sector.

In October 2021, IDA deputies will meet to agree on IDA's latest disbursal of funds and the replenishment process will conclude in December 2021 with a policy and financial package that will support 74 developing countries.

Eurodad's Key Message

Eurodad would like to see an ambitious policy package that ensures that developing countries have access to concessional resources to address their democratically-determined recovery needs. IDA20 must support an equitable, just and sustainable recovery, in line with the Agenda 2030 and the Paris Agreement. Projects cannot simply be about securing a 'good' financial outcome or sound financial investments. Instead, IDA20 should serve as an instrument that strengthens public finance and public service provision in developing countries, including expanding universal access to high quality healthcare, public education and social protection, whilst also ensuring that Covid-19 recovery efforts do not exacerbate climate change.

Based on these principles, Eurodad's recommendations address four Special and Cross-cutting themes of IDA20: Jobs and Economic Transformation (JET), Human Capital, Climate Change and Debt. We highlight the limits of market-based solutions, the necessity of ending privatisation in health and education, whilst also advocating for ways of supporting inclusive business models. Our proposals further address the urgency of global debt and climate change by calling for debt cancellation and implementing a do no harm principle in projects to ensure environmental sustainability.

Jobs and Economic Transformation (JET)

Context

The deep recession caused by the ongoing pandemic has led to a global loss in livelihoods. The International Labour Organization (ILO) estimated an 8.3 per cent decline in global labour income in 2020, amounting to 4.4 per cent of the global Gross Domestic Product (GDP). The gendered and generational nature of unemployment is also accompanied by the extractive, precarious and unsustainable structure of labour markets. As key workers in full-time jobs continue to face economic hardships, large corporations are benefitting from disproportionate and unjustified gains. By accelerating the structural inequity of the global economy, the pandemic threatens to extend the current pandemic into a lost decade. To reset this flawed model, the special theme of JET needs to reorient its emphasis on economic transformation towards sustainable socio-economic transformation. This entails creating jobs which enhance the agricultural and productive capacity of developing countries to enable structural change, whilst simultaneously investing in quality public services and the care economy. In addition, based on a long history of anti-developmental impacts, policies which promote austerity, wage suppression, labour market flexibility and deepening of financialisation should be curbed.

The private sector is also an important pillar of such socio-economic transformations. Small and medium enterprises (SMEs), cooperatives and inclusive business models can be a vital source of private sector employment in developing countries. Under JET, IDA20 can prioritise these businesses by supporting national and subnational public development banks, where they exist, and implementing adequate safeguards and evaluation frameworks to allow for these resources to reach those most in need. This approach not only prevents the all too often negative impact of using private commercial financial intermediaries, it supports marginalised households which are directly dependent on the private sector.

While the post-crisis recovery should focus on supporting the most inclusive business models, the role of the private sector in international development needs to be recalibrated. A major obstacle to achieving development goals is the overwhelming reliance of JET on IDA's PSW. The PSW is mobilising a "whole-of-WBG" approach in country strategies through partnerships with a series of private sector development partners. This means that the PSW will build on joint WBG efforts, whilst relying on Country Private Sector Diagnostics (CPSDs) to shape national policies. Using IDA20 to extend private finance and expand market creation in developing countries entails a diversion of concessional finance to the private sector and it can further deepen the risks of the 'private-finance first' model.

european network on
debt and development

Rue d'Edimbourg 18-26, 1050 Brussels, Belgium
+32 (0) 2 894 4640 · www.eurodad.org

Recommendations

- JET can be a source of sustainable and decent job creation if it supports inclusive business models such as SMEs and cooperatives. IDA resources to these businesses must be channelled through domestic public development banks, where they exist, instead of private commercial financial intermediaries. This will contribute to an agenda rooted in democratic ownership of recipient states and to ensure wealth distribution within the domestic economy.
- Given the large scale of public financing needs, including that for vaccines, donors should make prudent use of IDA's limited concessional resources. Considering the dearth of evidence on development additionality, resources should not be diverted to IDA's PSW. Instead, these resources should be redirected towards the crisis response window and other priorities which directly address poverty reduction.
- JET should be accompanied by Results Management System (RMS) indicators which provide clear evidence of additionality through sustainable, decent and quality job creation. This will also allow resources to reach those most in need.

Human Capital

Context

The World Bank's approach to the special theme of 'human capital' is narrowly defined to embed profit-orientation, as a core principle of poverty reduction. It is accompanied by an enhanced role of the International Finance Corporation (IFC) - the private sector arm of the World Bank - through the PSW, and provides space for private actors in sectors such as health and education. This approach does not consider the acute failure of privatising public goods across the world and its devastating impact, in the context of the current global pandemic. The pandemic has exposed the fact that the lack of resilient and affordable health systems is a shared problem amongst developed and developing countries, following years of spending cuts and privatisation.

Private sector solutions such as public private partnerships (PPPs) continue to present a myriad of problems, including contributing towards country indebtedness. Similar issues have been documented with the global trend towards the commodification of education. Since the onset of the pandemic, two-thirds of low-and lower-middle-income countries have cut their public education budgets. The SDG goals of equitable education and universal health coverage are thus in jeopardy, unless multilateral efforts including IDA20 are used as tools for supporting public spending.

The most effective and efficient way of responding to the humanitarian crisis of the pandemic is to substitute the 'human capital' approach with 'human development', which seeks to ensure that basic human needs are prioritised above all. Increasing public spending on all public goods including in education and health through IDA20 will be a step forward in controlling the impact of the pandemic,building resilience for future shocks and leading sustainable development. Enhanced public spending can also play a strong role in alleviating gender inequality.

Recommendations

- The term 'human capital' should be changed to 'human development' in IDA20 to focus on development as a human rights issue. Eurodad supports calls by multiple CSOs for this recommendation.
- All approaches towards human development should remove privatisation as a modality of provision in health and education.
- The human development theme should be accompanied by an indicator which demonstrates how public financing through IDA20 led to an increase in national budget expenditure for health, education and social protection. Evaluation frameworks and indicators measuring human development must demonstrate how the needs of people are being met.

Climate Change

Context

IDA20 is an opportunity for the WB to become an institution that supports greater access to climate finance for developing countries, and helps advance the achievement of the SDGs and the goals of the Paris Agreement. In the wake of ever-worsening climate change, it has become more urgent to ensure that finance to mitigate and adapt to climate change is provided. Developing countries have contributed the least to climate change, yet experienced the worst impacts, causing increased amounts of loss and damage. The current international climate finance goal does not include a stream of finance to address loss and damage.

Recommendations

- A do no harm principle must be applied to all projects to ensure that the environment and biodiversity are not adversely affected by projects, and to ensure that projects do not exacerbate climate change impacts.
- Activities must exclude fossil fuel financing, support energy access, a reduction in fuel poverty and a just transition for industries and workers in fossil fuel generating developing countries.
- Policies should support community-based adaptation,and provide targeted grants-based financing for adaptation, loss and damage, and sustainable finance.
- IDA should strengthen the valuation models used for climate risk and integrate a country's vulnerability into project valuation to climate change. This must include the risk of increased debt due to lack of climate action and the risk of continued, unchecked climate change in a country. Indicators that should be used include: risks to life, poverty, debt, livelihoods and sustainable development. This work should also help to incentivise clients and partners to collect such data.

eurodad
european network on
debt and development

Rue d'Edimbourg 18-26, 1050 Brussels, Belgium
+32 (0) 2 894 4640 · www.eurodad.org

Debt

Context

Since the beginning of the Covid-19 crisis, CSOs have been calling for unconditional debt cancellation for all countries in need by all creditors, including \ bilateral, private and multilateral creditors. Multilateral debt relief, and particularly that of IDA, could be paid for by a combination of funds from IMF gold reserve sales, use of the World Bank reserves (which could be enhanced by SDR reallocation), and donor grants additional to existing ODA commitments. Furthermore, IDA offers support to strengthen debt management capacity in developing countries through the Debt Management Facility and assesses, with the IMF, the countries' debt sustainability through the Joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries (DSF).

CSOs have been calling for a new approach to debt sustainability. The World Bank and the IMF should promote an open review of the Debt Sustainability Framework and Debt Sustainability Analysis, with UN guidance and civil society participation, in order to evolve towards a more adequate debt sustainability concept, going beyond fiscal balances and capacity of payment. The institutions should move towards a model that includes environmental and climate vulnerabilities, together with human rights and other social ,gender and development considerations at its core.

Both the Covid-19 pandemic and the climate emergency are examples of the kind of exogenous shocks that developing countries will continue facing in the coming decades. It falls within the mandate of the World Bank to offer IDA countries tools to protect them from economic, health and climate shocks. In this sense, IDA should include state contingent clauses in all lending to developing countries, to make sure these countries won't have to divert vital resources to repay their debts to a public institution like the World Bank while facing the impacts of external shocks.

Recommendations

- Provide multilateral debt restructuring and cancellation to all countries in need, while seeking ways to cover costs including through funds from IMF gold reserve sales, use of the World Bank reserves, and donor grants additional to existing ODA commitments.
- Promote an open review of the debt sustainability concept towards one that includes environmental and climate vulnerabilities, and with human rights and other social, gender and development considerations at its core.
- Include State Contingent Clauses in all new IDA lending agreements.

IDA20 is uniquely positioned to alleviate the devastating impact of the pandemic whilst serving as a precedent for an effective multilateral support instrument. Reorienting IDA's market-oriented focus towards public solutions in human development, jobs and economic transformation, climate change and debt cancellation will be a key contribution in achieving Sustainable Development Goals (SDGs).