Joint civil society submission on the Development Policy Financing (DPF) Retrospective
11 December 2021

Submitted by: Alternative Law Collective; Arengukoostöö Ümarlaud- Estonian Roundtable for Development Cooperation (Estonia); Bank Information Centre (global); Bretton Woods Project (UK - global); CAFOD (UK – global); Eurodad (Belgium - global); Friends of the Earth U.S.; Gender Action (global); Latindadd (Latin America); Latvian Platform for Development Cooperation LAPAS (Latvia); Recourse (The Netherlands - global); Rural Area Development Programme (Nepal); Trend Asia Indonesia; Urgewald (Germany - global)

Summary: This joint civil society submission to the comment period for the DPF Retrospective consists of four sections. It seeks to: (1) raise broader issues with the Retrospective process; (2) highlight overarching concerns with the DPF instrument itself; (3) articulate key select thematic issues where the World Bank is attempting targeted policy interventions via DPF; and (4) provide recommendations. The submission complements individual submissions to the Retrospective made by some of the civil society organisation (CSO) signatories.

I. Concerns about the nature, scope, and purpose of the DPF Retrospective

The 2021 Development Policy Financing (DPF) Retrospective has been undermined by repeated delays in the process (the Operations Policy and Country Services communicated to civil society in mid-2020 that the review would take place later that year), as well as general lack of clarity about the purpose and scope of the review. The public-facing web page for the DPF Retrospective merely notes that, “The World Bank systematically distills lessons from DPF Retrospectives as part of an ongoing effort to learn from implementation.” There is no explanation of how the World Bank will use comments that are provided by civil society, or the public at large, as part of the Retrospective comment period, despite this being recommended in the Bank’s own consultation guidelines.

There is also no clear rationale provided for the scope of the review and why some issues have been selected instead of others. As noted in a separate CSO statement published earlier this week on the IDA20 and DPF Retrospective consultations: “given civil society’s longstanding calls for the DPF retrospective and, in the light of the instrument’s importance, particularly in the pandemic response context, it was surprising to discover that civil society has been invited to provide input into the retrospective’s Executive Summary….No effort was made by the World Bank to seek input into the review’s methodology or design.” This follows civil society earlier this year being asked to provide comments on a PowerPoint overview of the World Bank’s new Climate Change Action Plan for 2021-25, rather than a full draft of the strategy.
Taken together, these public comment periods give the strong impression that the World Bank currently sees engagement with civil society largely as a box-ticking exercise, rather than as an opportunity for much-needed institutional reflection and learning designed to address shortcomings in Bank policies. This is particularly concerning in the case of the DPF Retrospective because, as will be outlined in the remaining sections, there are serious questions for the Bank to answer in terms of whether the governance oversight and policy reforms currently associated with DPF lending are fit for purpose.

II. Overarching issues with Development Policy Financing

The difficult fiscal situation and the risk of a weak recovery faced by many developing countries following the Covid-19 crisis make DPF an important source of non-earmarked funding that they could use to bolster their budgets that have been put under so much strain. However, the WBG’s stated intention is to use DPF as an instrument to nudge countries – especially those with “excessive regulations, subsidies, licensing regimes, trade protection or litigiousness as obstacles” – towards specific policy reforms, in alignment with its policy blueprints, such as the Maximising Finance for Development agenda.

Development Policy Financing was created in 2004 by merging Sectoral Adjustment Loans (SECALS) and Structural Adjustment Loans (SALs). The continuity with the past is evident in the type of policies promoted in DPF projects, as well as in the continued reliance on prior actions as a mechanism to attach conditionality to budget support.

**DPF characterised by weak transparency and accountability, relative to other World Bank lending instruments**

Despite the insistence by civil society at the time, DPF was not included in the World Bank’s Environmental and Social Framework when it was created in 2017. While the WBG has made an online database of Development Policy Operations (DPO) and their prior actions publicly available, there is no public database tracking the results of these actions, despite their far-reaching social and environmental implications. This makes it difficult for civil society to hold the WBG to account for the impacts of its policy advice. It also weakens its accountability and leads to a poor record of generating evidence of the actual impact of DPF on development outcomes, poverty reduction and the environment. Indeed, taking the ‘expected outcomes’ of the Bank’s prior actions highlighted in the overview of the DPF Retrospective at face value, it remains unclear whether the Bank is actively evaluating if these outcomes occur in practice, and whether it measures the impact of its policy interventions (including the unintended consequences of policy reforms) in a robust way.

Of particular concern - as will be highlighted further below - is whether the Poverty and Social Impact Analysis (PSIA) conducted on prior actions as part of each DPO is an effective screening tool. While the Retrospective’s Executive Summary suggests that, “The quality of poverty and social impact analyses has […] improved,” the baseline in this regard was quite poor. In 2015, the World Bank’s Independent Evaluation Group (IEG) produced a portfolio review of a sample of
DPOs approved between 2005-2014, identifying significantly more actions with risks of negative environmental or social effects than were highlighted by World Bank teams. It indicated, “underreporting of potential risks” and “inconsistent” identification of risks by Bank staff. CSO research suggests that this remains an issue.

**Undermining countries’ policy space and democratic ownership**

The use of conditionalities in the form of prior actions “negotiated” only with governments remains a very problematic feature of DPF lending, as it can be used as an instrument of undue influence on countries’ policy space, constraining countries’ development paths from diverging from the WBG’s policy blueprint and undermining the role of other stakeholders in meaningful and democratic design of the social contract. For example, research by Eurodad on DPF has shown that the onerous eligibility criteria, especially with regards to a country’s macroeconomic policies, governance and implementation capacities following World Bank-defined criteria, and the ensuing prior actions attached, undermine the principle of democratic ownership.¹ Even if the Bank’s direct and indirect influence is the result of a dialogue with country governments, the lack of participation of stakeholders such as women’s groups, farmers/fishers, labour, Indigenous Peoples, minorities, and other marginalised groups means that the funds provided will generally benefit only entrenched interests.

Underpinning these problems is the fact that ultimately DPF and the use of conditionality in policy lending is entrenched in, and reproduces the system of, unequal North-South relations in which global north countries (disproportionately represented on the Board) support reform blueprints for developing countries that they themselves stand to benefit from, through deregulation, privatisation, and trade liberalisation. Albeit in a changing global context, these are the same power dynamics that have been perpetuating wealth extraction from the global south and preventing their full and equitable development for centuries.

**III. Thematic issues: Climate, gender, fiscal consolidation, and private sector bias**

In each of the four thematic areas highlighted in the Retrospective, there is a question of whether specific targeted reforms are currently fit for purpose, as we explain below.

**Climate change and development policy finance: Concerns about Paris Agreement alignment and support for fossil fuel expansion via DPF**

While the DPF Retrospective overview slides note that DPF operations during the period under review have included an increasing number of ‘climate-related’ prior actions, there are lingering questions about the robustness of the Bank’s approach to tagging prior actions as climate-related. The 2020 joint report on MDBs’ climate finance - which has been repeatedly referenced by Bank staff as the relevant guidance - contains very threadbare details of what constitutes ‘climate-

¹ Gino Brunswick, ‘Flawed conditions: the impact of the World Bank’s conditionality on developing countries’, Eurodad Briefing Paper, April 2019
related’ prior actions, with the discussion limited to two case studies. It is also concerning that one of the examples of climate-related DPFs referenced on Slide 47 of the Retrospective overview is Pakistan, where WBG policy reforms through DPF, including - inter alia - the removal of consumer fossil fuel subsidies, resulted in a new generation of extremely lucrative coal power purchase agreements, according to research from urgewald. This raises concerns about whether the ‘climate-related’ prior actions included in DPF are, in fact, yielding the ‘expected outcomes’ articulated by the Bank.

This is linked to broader, longstanding civil society concerns that DPF lending is a key component of providing indirect finance for fossil fuel expansion - or signalling key political support via linked policy reforms. This includes in Guyana, where WBG DPF and technical assistance have played a key role in the development of a massive new offshore oil development that is acutely misaligned with global climate goals. The Bank’s support for fossil gas as a ‘transition fuel’ via DPOs in - for example - Jamaica and Indonesia is also a cause of grave concern, given that arguments around gas as an effective bridge fuel have been repeatedly debunked. In general, the Bank seems unable or unwilling to apply safeguards that will ensure - at a minimum - that finance disbursed through its DPF instrument is aligned with existing exclusions that apply to project finance around coal and upstream oil and gas. This is a concern, given the Bank’s claim that, under its Climate Change Action Plan for 2021-25, it is pivoting from greening projects to greening whole economies.

**Undermining gender equality: DPF fails to account for impact of WBG macroeconomic reforms**

Research conducted in 2019 by the Bretton Woods Project (BWP) has highlighted that the PSIAs for DPOs often fail to adequately screen macro-economic reforms included as prior actions for potentially negative gendered impacts. For example, a DPO series that included prior actions for public wage bill cuts in Serbia in 2016 and 2018 concluded there were no “significant adverse distributional impacts” of the policy reforms, with no explanation or evidence to support this conclusion. This raises questions about whether the PSIA is fit for purpose, given the likelihood of the negative social impacts of these cuts, on women in particular.

A subsequent BWP study published in 2021 uncovered similar issues in DPOs in Ecuador, Kenya, Ethiopia, Jamaica and Gabon. In Ecuador, for example, a 2019 World Bank DPO included a range of prior actions to implement austerity measures closely linked to a three-year Extended Fund Facility agreed with the IMF in 2019. One result of these prior actions was the dismissal of “3,680 workers, or 4.5 per cent of public health employees,...from the ministry of public health in 2019” - a sector where women make up the majority of the workforce. These reforms made Ecuador particularly vulnerable at the onset of the Covid-19 pandemic. In general, as noted in BWP’s 2021 report, World Bank reforms aimed at reducing public expenditure can have wider gendered impacts, which typically lack mitigation via PSIAs: “Reducing public expenditure can curtail access to vital public services, as critical health, social protection and care services are often in the public
sector, which women particularly rely on due to their differentiated needs and economic disadvantages.”

**DPF support to fiscal and debt sustainability: A gateway to austerity**

i) Prior actions focused on fiscal and debt sustainability are often a gateway to austerity measures, including in alignment with IMF programs

As noted in the 2021 DPF Retrospective overview, during the retrospective period there was a strong focus on countries’ macroeconomic framework and in particular on their fiscal sustainability, and this was often geared towards fiscal austerity. We also noted an increasing alignment between DPOs related to macroeconomic policy reforms and IMF policy advice, especially during the pandemic, due to the increasing number of countries receiving IMF emergency financial assistance.

**Eurodad analysis** of 53 DPOs in 46 countries implemented in 2017 found that fiscal policy represented 8.5 per cent (37 conditions) of all conditionality, and 26 of those conditions were geared towards fiscal austerity. In 21 DPOs out of 53 in the sample, there was at least one condition related to fiscal policy covering budgetary decisions, expenditure policy, debt and tax policies. We also found nine conditions calling for containing or reducing a country’s wage bill. In practice, these conditions led to hiring freezes and layoffs in the public sector. In the cases of Lao People’s Democratic Republic, Colombia and Serbia, loan conditionality was very specific in terms of putting ceilings in place for public sector hiring.

ii) The insistence on fiscal discipline has persisted during the pandemic emergency and raises the alert for a new wave of austerity

Similarly, **Eurodad’s analysis** of 90 DPOs approved between January 2020 and April 2021 found that prior actions in several DPOs directly or indirectly prescribed fiscal consolidation measures in full alignment with IMF loans, including in at least six countries with Covid-19 DPOs (Costa Rica, Dominica, Ecuador, Jamaica, Mozambique and Saint Vincent). In at least three countries (Costa Rica, Dominica and Burkina Faso), prior actions explicitly indicated the need for tighter fiscal spending through cuts in the public wage bill and, in one case, cuts in health spending for drugs (Montenegro). Ample evidence exists that the fiscal consolidation measures that reduce spending for public services and the public wage bill harm the poorest, increase inequality and

---

undermine human rights. These reforms are also rarely accompanied by comprehensive ex-ante assessment of their impact on poverty, inequality and human rights at large.

**Private sector-first approach a common feature of DPF**

Development Policy Finance is being used as a major channel of implementation and realisation of reforms related to the *Doing Business* report (DBR) (until 2020) and the Maximising Finance for Development or ‘Cascade’ agenda. Both aim at increasing the role of the private sector in development, often at the expense of the public sector, even when this has been demonstrated to ensure fairer, inclusive, more cost-effective and sustainable outcomes.

i) **Prior actions are designed to apply the Doing Business agenda, promoting a harmful understanding of the role of the private sector in the economy**

In a Eurodad analysis of 53 DPOs in 2017 found 27.7 per cent of prior actions in these operations were directed at increasing the role of the private sector. The bulk of private sector-related conditions – 67 – were reforms coherent with the indicators of the DBR. In fact, the DBR has been used as far more than as an advisory tool, and DPF has been key in translating the DBR’s recommendations into loan conditionality. For example, the 2017 *Doing Business Report* praised Albania for its reforms in the field of construction permits and access to electricity. These same reforms were included as prior actions in Albania’s Competitiveness Development Policy Loan of 2017.

This strong alignment of DPF prior actions with the *Doing Business* agenda is problematic because of its underlying notions of enabling the business environment and of the role of the private sector. Before its discontinuation in September 2021, the DBR had been repeatedly criticised for pushing countries into a race to the bottom in terms of deregulation and liberalisation, eroding tax and social security systems, and removing critical workers’ protections. It entailed a view of economic development as a competition between countries that can only be won by reducing the role of the state and creating the conditions for runaway capital. Through *Doing Business*-related prior actions, for years these harmful ideas have shaped the development of the private sector in developing countries, affecting local businesses and workers.

Just recently, the Indonesian Constitutional Court ruled the Omnibus Bill to be unconstitutional. The World Bank had promoted this Bill in 2019 and 2020 Indonesia DPOs. The law undermined workers’ rights and entitlements as well as environmental protections, and cleared the way for privatisation of the electricity sector.


ii) Prior actions apply the *Maximising Finance for Development Agenda* to countries pushing for reforms that aim at increasing the privatisation of state-owned companies and the creation of new markets through amending competition rules and facilitating foreign investment in the public utilities sector.

In 2017, the DPOs in Iraq, Jordan and Egypt, where the World Bank is implementing the MFD approach, included 11 conditions specifically related to the MFD strategy.\(^8\) In Jordan, the DPO laid the institutional and regulatory foundations for increased private sector participation. Another condition required the government to adopt a National Plan for Wastewater Treatment Plants, which is backed up by a Multilateral Investment Guarantee Agency (MIGA) guarantee for the expansion of wastewater plants in Jordan through a public private-partnership (PPP) project.

The promotion of PPPs is another pillar of the MFD agenda that is aggressively promoted in DPOs through prior actions. Across the 2017 DPOs, the adoption of PPP laws and policies were being included in the conditions of five countries: Tunisia, Afghanistan, Mauritania, Bhutan and Burkina Faso, while a Grenada DPL included the conditions to set up a PPP unit in its government administration.

The promotion of the MFD agenda has not slowed down during the Covid-19 pandemic. In several countries, DPOs required governments to absorb the losses of public utilities companies caused by poor customers being exonerated from paying their bills during the Covid-19 crisis.\(^9\) For instance, in Benin, the Covid-19 DPO is designed to ensure that the reforms prescribed in the previous DPOs and aimed at improving the efficiency and sustainability of the energy sector continue and remain effective despite the Covid-19 crisis. In particular, a plan has been set up so that the government can compensate the public utility distribution company (SBEE, managed by a private Canadian company) for the loss from the suspension of the rise in the electricity tariff by 5 per cent during the Covid-19 crisis. In Kenya, DPOs promoted reforms for the financialisation of the affordable housing sector, despite concerns of the civil society that this may undermine the right to housing.

The promotion of the MFD through DPOs is problematic for several reasons:
- It ignores well-documented evidence of the multiple risks of PPPs for the public sector and for citizens, including their high cost, fiscal risks, questionable effectiveness, and equity implications;
- The focus on increasing the financial efficiency and competitiveness of State-Owned Enterprises (SOEs) at the cost of taxpayers is often a prelude to their full privatisation and is at odds with the increasing recognition of the important role that strong SOEs can (and should) play in developing countries;\(^10\)
- It reflects a fundamental underlying prejudice against the public sector, promoting privatisation and financialisation even in sectors that should remain the purview of the state;

---

- There are no clear signs of an attempt to design MFD prior actions taking into consideration the possible negative consequences of privatisation on human rights, especially for the poorest people\(^{11}\).

\[\]

**IV. Recommendations:**

Deep structural reforms are needed to make Development Policy Financing useful for countries to build a more equitable, transformative and sustainable economic model and reinforce country ownership. This includes the provision of budget support with no policy conditionality or other forms of coercion, but rather with measures that strengthen transparency in accounting and accountability towards citizens, as well as fulfilling human rights obligations and alignment with the goals of the Paris Climate Agreement, including Nationally Determined Contributions. It also implies moving away from the World Bank’s private finance-first, gender-blind policy blueprint and starting to promote reforms that are the result of meaningful and transparent consultation with the local civil society.

**In light of this, we suggest the following recommendations:**

- Minimise the use of prior actions in DPF;
- End the use of economic policy conditionality, particularly when focused on fiscal consolidation and enhancing the role of the private sector in public services delivery;
- Increase meaningful consultation with a wider range of stakeholders, including civil society organisations, trade unions and women’s rights organisations;
- Strengthen public oversight and citizen participation in fiscal accountability;
- Strengthen the Poverty and Social Impact Assessment of DPF, including the development of a human rights policy and impact assessment methodology based on a ‘do no harm approach’, to be applied to policy lending;
- Fully implement the 2012 guidance note on Integrating Gender in PSIA by systematically conducting gender impact assessments of DPF and related policy interventions; and by ensuring that any measures taken to minimise impacts effectively mitigate them, or adequately address underlying gender inequalities.
- Adopt measures to increase the transparency and accountability of DPF, in order to enable citizens and civil society to monitor DPF projects and their impact on government policy;
- Undertake a robust review of the way in which the World Bank conducts research and translates it into country policy advice, including the use of policy conditionality and paid and unpaid technical assistance;

• Overcome the ideological bias in favour of neoliberal policies, starting with abandoning a ‘private-sector first’ agenda and adopting a definition of ‘enabling business environment’ that aims at transformative economic diversification and resilience, and properly values people and the planet, as asked by more than 140 CSOs and individuals in an open letter calling for the Bank to urgently address the structural issues revealed by the DBR scandal.

• Ensure that DPF is aligned with the goals or the Paris Climate Agreement and principles of the civil society review on the equitable phase out of fossil fuels, and that any prior actions are consistent with these, both in the letter of the prior actions as well as in the political process that accompanies their implementation;

• Establish that DPF Prior Actions are deemed as not aligned with the Paris Climate Agreement if they support any activities or policy reforms that increase the return on investment or return on equity of fossil fuel investments, including inter alia: any lowering of tax liabilities that apply to fossil fuels; any new or continued tax exemptions for fossil fuels; low royalty rates; quick permitting; and increasing energy tariffs that result in increased return on investment to producers of fossil fuels or of fossil fuel-based electricity.

• Ensure that all DPF explicitly supports the global transition to sustainable renewable energy and is not complicit in supporting the expansion of coal, oil and gas through the back door.

• All budget support to governments must have coal-, oil- and gas-associated activities listed as Excluded Expenditures in the financing agreement. Given DPF is given as non-earmarked budget support, which is fungible, this must be verified by ensuring that the government has not increased their budget expenditures for fossil fuels post receiving DPF support.

SUBMITTED BY:

1. Alternative Law Collective (Pakistan)
2. Arengukoostöö Ümarlaud- Estonian Roundtable for Development Cooperation (Estonia)
3. Bank Information Centre (Global)
4. Bretton Woods Project (UK - Global)
5. CAFOD (UK – global)
6. Eurodad (Belgium - Global)
7. Friends of the Earth U.S.
8. Gender Action (Global)
9. Latinadd (Latin America)
10. Latvian Platform for Development Cooperation LAPAS (Latvia)
11. Recourse (The Netherlands - Global)
12. Rural Area Development Programme (Nepal)
13. Trend Asia Indonesia
14. Urgewald (Germany - Global)
Appendix: LIST OF KEY CSO EVIDENCE/REPORTS


https://www.eurodad.org/why_public_private_partnerships_are_still_not_delivering

https://www.eurodad.org/the_policy_lending_doctrine


Recourse: WORLD BANK DEVELOPMENT POLICY FINANCE PROPS UP FOSSIL FUELS AND EXACERBATES CLIMATE CHANGE: Findings from Peru, Indonesia, Egypt, and Mozambique

Recourse (former BIC Europe) and Egyptian Initiative for Personal Rights: Is the Bank providing the Right Incentives for Low-Carbon Development in Egypt?

Recourse (former BIC Europe) and Friends of the Earth Mozambique: Is the Bank providing the Right Incentives for Low-Carbon Development in Mozambique?

Recourse (former BIC Europe), DAR and 11.11.11: Is the Bank providing the Right Incentives for Low-Carbon Development in Peru?
Recourse (former BIC Europe) and Greenpeace: Is the Bank providing the Right Incentives for Low-Carbon Development in Indonesia?

Urgewald, 2021. World Bank helps develop Asia’s largest coal field