



eurodad  
european network on  
debt and development

# The policy lending doctrine

Development Policy Financing in the World Bank's Covid-19 response

By Chiara Mariotti • September 2021



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# Contents

Executive summary	3
<b>1. Introduction</b>	<b>5</b>
<b>2. Development Policy Financing in the World Bank's Covid-19 response</b>	<b>7</b>
2.1 Overview of Covid-19 DPOs	9
2.2 Fiscal advice and macroeconomic policies: opening the gates to austerity and privatisation	10
2.3 Transparency, accountability and oversight: for whom?	12
2.4 Private sector development and business support in the Covid-19 recovery	13
2.5 Public-private partnerships and privatisation in the public utilities sector	15
2.6 Social protection and health	16
2.7 Energy transition	17
2.8 Gender equality and women's rights	18
<b>3. World Bank's policy lending and its discontents</b>	<b>19</b>
3.1 A major channel for implementation of the WB policy blueprint	19
3.2 Incoherence in the approach to transparency and accountability	20
3.3 Undermining countries' policy space and democratic ownership	21
3.5 The hypocrisy of 'green conditionalities'	22
<b>4. Overcoming the policy lending doctrine: the way forward</b>	<b>23</b>

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## Executive summary

At the beginning of the Covid-19 pandemic, the World Bank (WB) made it clear that it was going to use the crisis to promote its development vision and implement far-reaching structural reforms, especially those aligned with the promotion of 'private sector solutions'. It also made clear that it would rely on Development Policy Financing (DPF) to carry out its Covid-19 response.

DPF provides budget support to developing country governments with conditions attached which specify the adoption of specific policy and regulatory reforms. In each programme document this translates into 'prior actions' which are often closely aligned to policy conditionality included in IMF loans. The volume of the DPF portfolio reached US\$17.4 billion in FY20 and US\$17.8 billion in FY21 (respectively 30 per cent and 27 per cent of total lending), from US\$11 billion in 2019.

This raised alarm bells across civil society, which has long contested DPF for the type of policy reforms pushed onto countries, and the use of conditionality as a way of exerting undue influence over national policy making. At the same time, the WB has published the findings of external investigations that expose extensive use of data manipulation, ethical misconduct and conflict of interest in the production of its flagship Doing Business Report, which ranked countries on how easy it is for the private sector to operate in them. This included the technical assistance provided to developing countries ahead of the DBR's publication.

This report investigates the use of DPF in the WB's Covid-19 response. It analyses a database of 90 Development Policy Operations (DPOs) and their prior actions approved between January 2020 and April 2021 in 64 countries. It also reviews civil society concerns about the WB's use of DPF in light of this emerging evidence, and contributes to an informed debate about the WB's use of budget support in the context of the Covid-19 recovery and beyond.

### Findings

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A total of US\$22.94 billion were committed for the 90 DPOs analysed, which included a total of 650 prior actions. Out of 90 DPOs, 45 were Covid-19 related.

The analysis finds that so far the WB has lost the opportunity to break with the past and play a truly progressive and transformative role in helping countries rebuild their economies in the context of the Covid-19 recovery and the climate transition. This is evident in the type of policies promoted and the continued reliance on policy conditionality as an instrument for influencing national policy making

that does not adequately account for its impact on poverty, inequality and human rights. This use of DPF entrenches a way of bringing about change that rests on neocolonial power dynamics, with international institutions in the global north continuing to occupy developing countries' policy space.

**Fiscal advice and macroeconomic policy.** There is an increasing alignment between DPOs related to macroeconomic policy reforms and IMF policy advice, due to the increasing number of countries receiving IMF emergency financial assistance during the pandemic. In our sample, 53 out of the 64 countries in the dataset had a loan arrangement with the IMF and 49 countries had resorted to the IMF for financial assistance since the start of the Covid-19 pandemic.

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. In at least four countries, prior actions explicitly indicate the need for tighter fiscal spending through cuts in the public wage bill and, in one case, cuts in health spending for drugs.

**Private sector development and business support in the Covid-19 recovery.** DPF is being used to promote a greater role for the private sector, in alignment with the *Doing Business* and the *Maximising Finance for Development* approach. The majority of the 90 DPOs, including half of the 45 Covid-19 DPOs, prescribed prior actions aimed at business support and private sector development. The most common measures prescribed to deal with the crisis were tax relief measures, followed by measures to provide liquidity to businesses. While in most cases there was an explicit focus on micro, small and medium enterprises (MSMEs), the measures prescribed do not try to correct the bias in developing countries' tax structures against MSMEs and in favour of large (often foreign) corporations. They also do little to channel grants to businesses and lack explicit focus on supporting businesses and workers in the informal sector.

**Public-private partnerships (PPPs) and privatisation in the public utilities sector.** In our sample, prior actions continued to be geared towards enhancing the participation of private sector actors in the public utilities sector and state-owned assets, without taking into consideration the possible negative consequences of privatisation on human rights. This was the case for both Covid-19 related and non Covid-19 related DPOs. The measures most commonly prescribed included: the adoption of new (higher) tariffs and the debt restructuring of the public utility, with the government absorbing the losses; the granting of concessions and licences; the adoption of competition policies; and reforms to promote the use of PPPs.

**Social protection and health.** Several of the DPOs examined had an evident focus on social protection and health measures, but failed to discourage the use of targeting in social protection and user fees in public health. About half (22 out of 45) of the Covid-19 DPOs included prior actions prescribing social protection reforms, such as the expansion of systems or the introduction of new ad hoc and temporary funds, underscoring the insufficient and inadequate coverage of pre-existing targeting systems. With regards to health, most prior actions related to the adoption of measures to strengthen pandemic preparedness and response, but had little emphasis on comprehensive strengthening of public health systems, including through removing financial barriers to access to health, or addressing the issue of health workers.

**Gender equality and women's rights.** The 90 DPOs examined failed to account for, or take adequate measures towards mitigating, the specific impact of their macroeconomic policy advice on women. We identified only 14 prior actions in 10 countries directly related to gender equality and women's rights. Several DPOs pursued macroeconomic policy reforms likely to have a mainly negative impact on women, for instance removal of gasoline subsidies or cuts in the public wage bill, without assessment of their gendered impact or prescriptions of measures to mitigate it.

**Energy transition and the hypocrisy of green conditionalities.** DPF is still far from providing policy advice consistent with achieving a just energy transition away from fossil fuels, towards renewable energies. In our sample, in at least two countries there were prior actions that prescribed institutional reforms to strengthen the enabling environment for investment in the hydrocarbon sector. In at least three countries, the burden of reducing emissions is placed on the consumer, through the elimination of fossil fuel subsidies. Finally, several DPOs included prior actions to strengthen the renewable energy sector through the involvement of the private sector, but with little attention to increasing public investment in renewable energy.

**Transparency, accountability and democratic ownership.** DPF maintains a partial and inconsistent approach to transparency and accountability. In this respect, it focuses on the WB and its shareholders, putting emphasis on transparency in fiscal and debt management and on domestic state corruption, but it neglects private and transnational corruption and citizen accountability and oversight. In our sample, in only three countries prior actions focused on enhancing fiscal transparency and accountability towards citizens, and in only two countries prior actions

concerned tax dodging and illicit financial flows. The poor record of stakeholder engagement and citizen accountability and oversight defies the purpose of budget support and undermines country ownership of the reforms.

### Policy recommendations

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The findings included in this report lead us to call for a substantive overhaul of the WB's use of DPF. To prevent promoting a biased policy agenda, the WB should review its operational policy on DPF and adopt a policy that fully respects democratic ownership. This requires the Bank to:

- i. minimise the use of prior actions;
- ii. 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;
- iii. increase meaningful consultation with a wider range of stakeholders, including civil society organisations, trade unions and women's rights organisations;
- iv. promote reforms that are explicitly focused on strengthening public oversight and citizen participation in fiscal accountability;
- v. strengthen the Poverty and Social Impact Assessment of DPF including the development of a human rights policy and impact assessment methodology, to be applied to both projects and policy lending;
- vi. 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.

The WB should also urgently conduct a new updated Development Policy Financing Retrospective to assess its contribution to the WB's goals of eradicating poverty and enhancing shared prosperity.

Finally, to regain credibility and legitimacy, the WB must undertake a deep review of the way in which it conducts its research and translates it into country policy advice, including the use of policy conditionality and paid and unpaid technical assistance.

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# 1.Introduction

**“[The pandemic] is a portal, a gateway between one world and the next.”**

Arundhati Roy, 3 April 2021<sup>1</sup>

**“Countries will need to implement structural reforms to help shorten the time to recovery and create confidence that the recovery can be strong. For those countries that have excessive regulations, subsidies, licensing regimes, trade protection or litigiousness as obstacles, we will work with them to foster markets, choice and faster growth prospects during the recovery.”**

David Malpass, President of the World Bank, remarks to the G20 Finance Ministers, March 2020<sup>2</sup>

For a brief moment in time, many believed that the Covid-19 pandemic could be an opportunity to break with the past, rethink our economic model, have the courage to adopt the deep changes needed to deal with the climate and inequality crises facing the world and move towards achieving the Sustainable Development Goals.<sup>3</sup>

Alas, the wind of change did not last long. Most international institutions<sup>4</sup> quickly adopted the catchphrase of ‘Building Back Better’, borrowed from emergency response and disaster risk reduction.<sup>5</sup> The World Bank Group (WBG) outlined this approach in its report *Saving Lives, Scaling up Impact and Getting Back on Track*,<sup>6</sup> which makes clear that the crisis is indeed seen as an opportunity for promoting the WB’s long-term development vision and implementing far-reaching structural reforms. However, this vision is no different from what was predicated and pursued by the WB before the pandemic. It is a vision that reserves a central role for the private sector and private finance in development, as outlined in the Maximising Finance for Development (MFD) Agenda.<sup>7</sup> It favours market-oriented solutions and distrusts state capacity, and it puts macro-economic stability and fiscal balance ahead of human rights. This approach, which has been at the core of the WB and the International Monetary Fund (IMF) for decades, has weakened the social contract and left countries vulnerable to the pandemic and economic crisis.<sup>8</sup> Rather than being a portal to a different world, the pandemic risks being used as a ‘shock doctrine’<sup>9</sup> to push this vision based on pro-finance and pro-corporate solutions to deal with the crisis.

One of the WB’s financing instruments prioritised in response to the Covid-19 crisis is Development Policy Financing (DPF). Through DPF, budget support is provided to governments conditioned on the adoption of specific policy and regulatory reforms, translated in the programme document into ‘prior actions’.

The volume of the DPF portfolio increased from about US\$11 billion in 2019 to US\$17.8 billion in 2021. This is indicative of the WB’s intention to use the crisis to push its policy blueprint onto countries around the world. Over the years, the use of this instrument has raised concerns from civil society regarding both the content of the policy reforms demanded from countries, and the use of conditionality as a way of exerting undue influence over national policy making.

This report analyses a database of 90 DPF operations and their prior actions, approved between January 2020 and April 2021. This covers a key period during which the world was impacted by the Covid-19 crisis. It also reviews previous civil society concerns about the WB’s use of DPF in light of this new emerging evidence. The objective is to contribute to an informed debate about the WB’s use of budget support in the context of the Covid-19 recovery and beyond and to provide a benchmark for further analysis.

It also serves to underscore the urgency of a new updated WB Development Policy Financing Retrospective to assess what the real contribution to the WB’s goals of eradicating poverty and enhancing shared prosperity has been since the last Retrospective in 2015.<sup>10</sup> The urgent need for such review has become even more pressing following the investigation revealing widespread undue pressure, ethical misconduct and conflict of interest in the way in which the WB administers its policy advice on private sector development and business environment.<sup>11</sup>

The report is structured as follows:

Section 2 describes the key characteristics of DPF and analyses its use in the WB's Covid-19 response, drawing from a database of 90 DPF projects and their prior actions. It provides up-to-date data on the magnitude and regional distribution of DPF, and an in-depth analysis of prior actions in six policy areas, such as fiscal advice and macroeconomic policies, private sector development and business support in Covid-19 response, public-private partnership and privatisation of public utilities, social protection and health, energy transition, and gender equality and women's rights. It finds that there is no break with the past in the policies promoted by the WB in the Covid-19 response and recovery, which are in fact geared towards promoting fiscal austerity and pro-market and business first reforms, and do little to support human rights and the achievement of a just transition.

Section 3 unpacks the main criticisms moved to DPF, linking them to the evidence analysed in section 2. It discusses how DPF is a major channel for implementation of the WB's agendas in support of the private sector; it argues that it does so while maintaining a patchy and incoherent approach to transparency and accountability, while undermining countries' policy space and democratic ownership and it develops an argument against the use of green conditionalities.

Section 4 concludes with recommendations for the WB.

## 2. Development Policy Financing in the World Bank's Covid-19 response

The World Bank's Development Policy Financing (DPF) provides general budget support to developing countries (that is, unearmarked contributions to a government's budget for its discretionary use), in the form of non-earmarked loans, grants, credits or policy-based guarantees. It complements Investment Project Financing (IPF), where funds are earmarked for specific projects. It is used by both the International Bank for Reconstruction and Development (IBRD), which provides loans to middle-income countries, and the International Development Association (IDA), which focuses on low-income countries. The use of DPF is regulated by Bank Procedure 8.60,<sup>12</sup> which was updated in 2014, and by the Bank Policy on Development Policy Financing,<sup>13</sup> issued in 2017.<sup>14</sup>

DPF is an instrument purportedly aimed to support "a Member Country's program of policy and institutional actions that promote growth and sustainable poverty reduction."<sup>15</sup> Underscoring its broad mandate, single DPF projects or 'Development Policy Operations' (DPOs) can address a range of policy areas. DPOs are a pillar of the World Bank's country engagement, together with Country Partnership Frameworks (CPF), which lay out the objectives for the Bank's assistance at the country level, and Systematic Country Diagnostics (SCDs), diagnostic exercises aimed at identifying key challenges and opportunities to accelerate progress towards development objectives.<sup>16</sup>

When establishing a DPO, the WB determines a set of policy and institutional actions that it considers essential to achieve the objectives set out in the CPF and in the SCD. These take the form of 'prior actions' – legally binding policy or legal reforms, to be complied with before the Board approves the programme, and 'triggers', which are actions planned for the second or later year of a programme, and can constitute the basis for prior actions of future operations. DPOs also include 'result indicators', which further shape the prescribed reforms. The fact that prior actions and triggers have to be accepted by governments in order to obtain concessional finance means the process is potentially fraught with risks of abuse of power.

According to the World Bank's 2015 Development Policy Financing Retrospective,<sup>17</sup> DPF accounts for about a quarter of its total lending. Between 2005 and 2015, the Bank approved 630 DPOs and 22 supplemental financing operations, representing approximately US\$117 billion worth of commitments. In the two years following the 2008 global financial crisis (FY09-FY10), the DPF share of total lending rose to nearly 40 per cent.

In the aftermath of the Covid-19 pandemic the WB's DPF portfolio increased again, reaching US\$17.4 billion in FY20<sup>18</sup> and US\$17.8 billion in FY21 (respectively 30 per cent and 27 per cent of total lending).<sup>19</sup> The increase has mostly been driven by DPOs to low-income (or IDA) countries, which have increased from a volume of US\$3 billion to around US\$7 billion, while DPOs to middle-income (IBRD) countries have remained stable at around US\$10 billion (see Table 1).

The IDA share of DPOs has increased from an average of 13 per cent (US\$3 billion) over FY15-19 to 24 per cent (US\$7 billion) in FY20, while the IBRD has remained almost unchanged in FY20, at around 36 per cent (US\$10 billion) of total commitments.<sup>20</sup>

**Table 1: Evolution of DPF lending in the aftermath of the Covid-19 crisis<sup>21</sup>**

	FISCAL YEAR 2015-2019		FISCAL YEAR 2020 (net commitments)		FISCAL YEAR 2021 (net commitments)	
	Volume (\$bn)	Share	Volume (\$bn)	Share	Volume (\$bn)	Share
IDA	3	13%	7.3	24%	7	19%
IBRD	~10	~35%	10.1	36%	10.8	35%
TOTAL	11	25%	17.4	30%	17.8	26.6%

The difficult fiscal situation and the risk of a weak recovery faced by many developing countries<sup>22</sup> 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 by the Covid-19 crisis. However, the WB's stated intention 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 runs the risk of turning it into a major channel of undue influence. This is true both for the nature of reforms demanded as well as for the modality of the 'nudge', resorting to conditionalities in the form of prior actions. Previous 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 WB-defined criteria, and the ensuing prior actions attached, undermine the principle of democratic ownership.<sup>23</sup>

In the remainder of this chapter, we provide evidence drawn from an investigation of a database of 90 DPOs, and the set of policy reforms (or 'prior actions') approved between January 2020 and April 2021 promoted by the WB in the Covid-19 response and recovery. The following section provides an overview of general trends, while each

of the remaining sections focuses on a set of policy areas, namely fiscal advice and macroeconomic policies, private sector development and business support in the Covid-19 response, public-private partnerships and privatisation, social protection and health, energy transition, and gender equality and women's rights.

### Box 1: Sources of data, methodology and limitations of the research

The research in this report draws on a database of the DPOs approved by the WB's Executive Board between January 2020 and April 2021. The database was constructed relying on the following sources:

- the World Bank Development Policy Actions Database (DPAD)<sup>24</sup>
- the Covid-19 World Bank Emergency Response: Projects Repository by the Bank Information Center<sup>25</sup>
- the World Bank's Projects and Operations website,<sup>26</sup> consulted for DPOs matching the search criteria but not included in any of the other two databases.

For each DPO, data were collected on the committed and disbursed amount, practice area lead, sectoral focus, objectives, indicators, prior actions and instrument for fund disbursement.

A DPO project was considered to be related to the Covid-19 pandemic when Covid-19 was mentioned in the project name and/or in the policy objectives, or the project objective included disease outbreak response. Supplemental financing projects, aimed at filling unanticipated funding gaps due to Covid-19, were also included.

Most DPOs are classified by the WB for their main sector of intervention. However, this is a very broad classification that only partially reflects all the different policy areas of intervention dealt with in DPO. Prior actions are also sometimes classified by a sector and theme by the WB, but similarly this classification is not very informative of the breadth and depth of the policy reforms prescribed in DPOs. For this reason, for this research DPOs were classified and analysed searching for key words in their prior actions. The key words chosen are core terms used in the policy areas analysed: fiscal advice and macroeconomic policies, public-private partnerships, social protection and health, gender equity, energy transition, gender equality and women's rights.

This research provides a snapshot of DPF at a specific point in time. Being a cross-country study, the depth of the analysis of each type of prior action is limited, and so is the extent to which this is put in context in each country. While it tries to give an overview of different policy areas, for reasons of space it does not cover some important areas of intervention, such as taxation. Despite these limitations, it provides a condensed analysis of what type of recovery the WB is promoting, and it will constitute a benchmark for future analysis of the WB Covid-19 response.



## 2.1 Overview of Covid-19 DPOs

Between January 2020 and April 2021,<sup>27</sup> 90 DPOs were approved in 64 countries, amounting to a total of US\$22.94 billion committed. Of these, 45 were Covid-19 related,<sup>28</sup> including nine

funding gaps due to Covid-19. In August 2021, as per the information provided on the WB's Projects and Operations web pages, the amount actually disbursed was US\$19.7 billion.

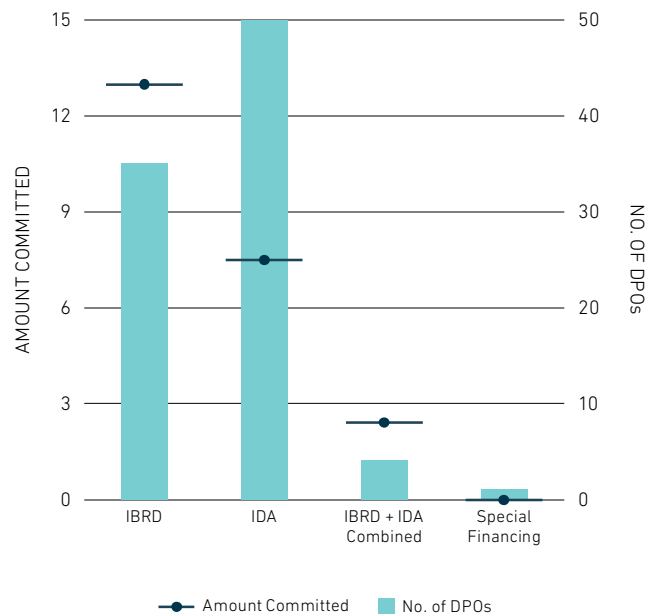
The majority of these projects disbursed funding through loans (58 projects), with grants representing less than 10 per cent of the total disbursed (see Figure 2). IDA countries received the largest number of programmes but IBRD countries received the largest share of the total amount committed (see Figure 1).

In terms of regional distribution (see Figure 3), sub-Saharan Africa accounted for the largest share of all DPOs (37 per cent), as well as the largest share of money committed (31 per cent) and of prior actions requested (32 per cent), followed by Latin America, with 26 per cent of DPOs, 33 per cent of money committed and 30 per cent of prior actions.

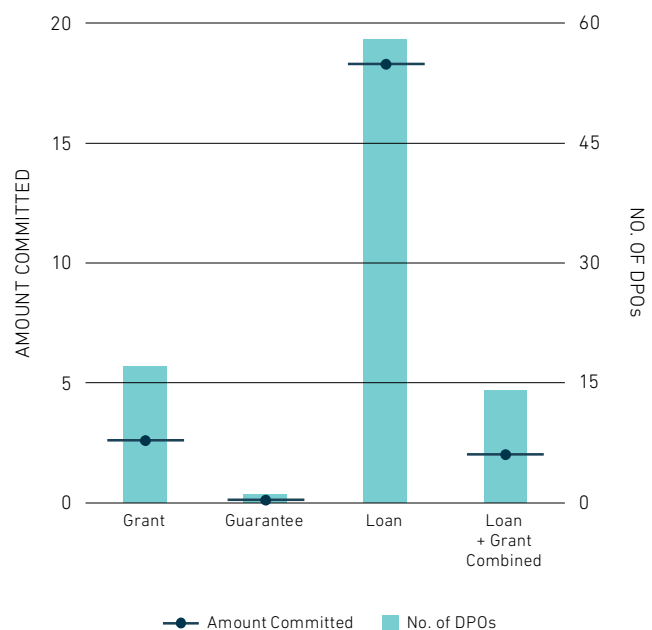
**Table 2: Overview of Covid-19 DPOs (January 2020–April 2021)**

Type	All projects		Covid-19 related projects	
	No of projects	Amount committed (US\$ bn)	No. of projects	Amount committed (US\$ bn)
IBRD	35	13	25	2.6
IDA	50	7.5	19	7.5
IDA + IBRD combined	4	2.4	1	0.75
Special financing	1	0	0	0
<b>Total</b>	<b>90</b>	<b>22.94</b>	<b>45</b>	<b>10.9</b>
Grant	17	2.6	9	0.4
Guarantee	1	0.09	0	0
Loan	58	18.3	29	9.6
Loan + Grant combined	14	2	7	0.9
<b>Total</b>	<b>90</b>	<b>22.94</b>	<b>45</b>	<b>10.9</b>

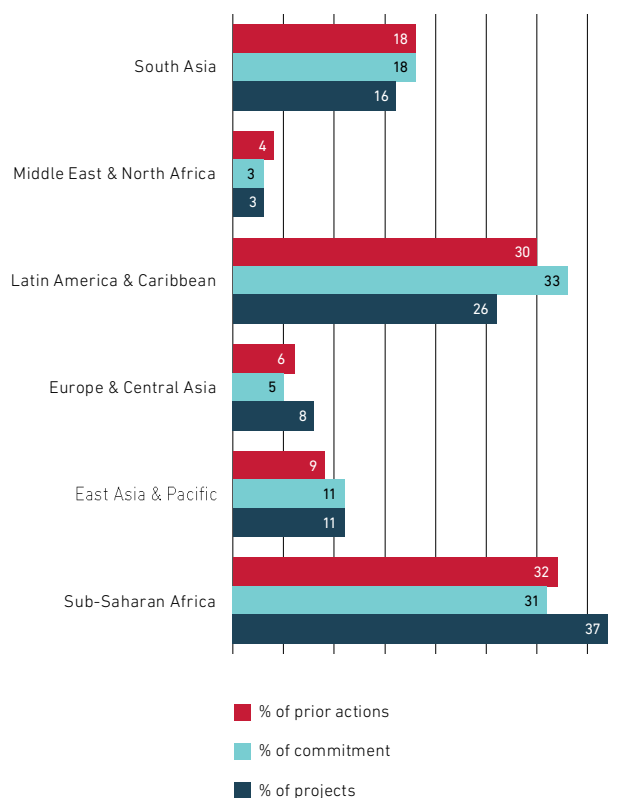
**Figure 1: DPOs by country category**



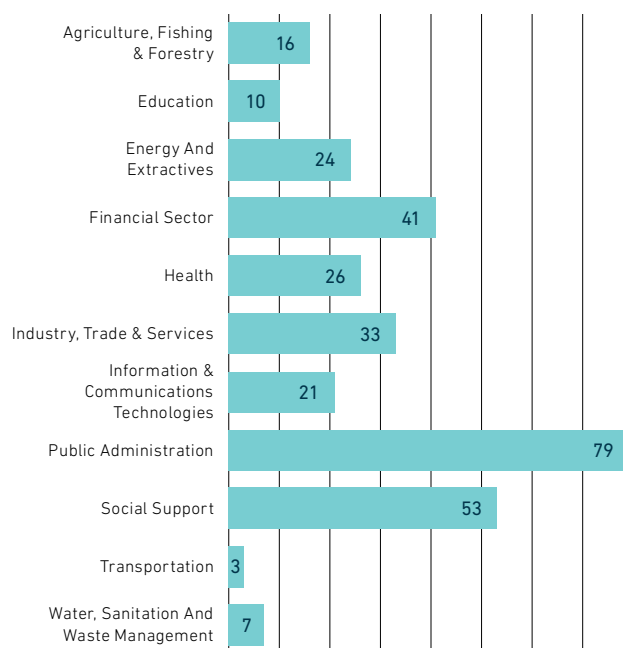
**Figure 2: DPOs by type of transfer**



**Figure 3: Regional distribution of DPOs**



**Figure 4: Sectors of focus in DPOs**



As Figure 4 shows, the sectors more frequently addressed in the examined DPOs are Public Administration (in 79 DPOs out of 90) followed by social support (53) and the financial sector (41). Health only appears in 26 projects.<sup>29</sup>

The 90 DPOs analysed include a total of 650 prior actions (seven per project on average). Prior actions are a better indicator than the sector classification of the policy areas of focus and of the reforms and transformation sought for through the DPOs. They also provide an indication of where the WB deems transformations are most required, which areas may be more controversial in the discussion with the government, as well as reflecting the inclination of country governments for different reforms.

## 2.2 Fiscal advice and macroeconomic policies: opening the gates to austerity and privatisation

For decades, fiscal discipline has been a recipe prescribed by the WB and the IMF. Typically, the fiscal consolidation measures required by IMF loans would make necessary the privatisation and liberalisation reforms then supported by the WB policy lending. Prior actions in DPOs related to macroeconomic policy reforms are usually strictly aligned with the advice given to the country by the IMF, either through its country surveillance or conditionalities in loan programmes, and designed to ensure the country maintains a “sound macroeconomic framework”, characterised by low inflation, fiscal balance, flexible exchange rate and an independent central bank.

During the pandemic, the WB recommended countries should borrow heavily<sup>30</sup> and the IMF encouraged them to continue to spend.<sup>31</sup> However, but they both continued to push their members to return to this macroeconomic blueprint through their loans and country operations, including DPOs, over the medium to longer term. Alarms have been raised for a looming new wave of austerity,<sup>32</sup> which, together with the sovereign debt crisis faced by many developing countries, may increase inequality and erode human rights.<sup>33</sup>

In the sample examined for this research, 53 out of the 64 countries with DPOs in the dataset had a loan arrangement with the IMF and 49 countries had resorted to IMF financial assistance since the start of the Covid-19 pandemic.<sup>34</sup> The majority of this was provided through the Rapid Credit Facility or the Rapid Financing Instrument, emergency loans that come with no conditionalities.<sup>35</sup> However, most recipients still made commitments to the IMF to undertake fiscal consolidation over the course of the loan agreement. A recent Oxfam analysis of IMF loans approved between 1 March 2020 and 15 March 2021 found that 85 per cent of the 107 loans negotiated with 85 national governments to respond to the Covid-19 crisis indicate plans to undertake fiscal consolidation during the recovery period. Of these 85 countries, 26 had plans to commence or resume fiscal consolidation as early as 2020 and 2021.<sup>36</sup>

Eurodad's research<sup>37</sup> has also found that many of these countries remain in conditions of deep debt distress despite the IMF emergency financial assistance, and will soon have to resort to a full IMF programmes with conditionalities. This has already been the case for Costa Rica, Ecuador, Kenya and Cameroon.

Ample evidence exists that the fiscal consolidation measures promoted by the IMF continue to involve reforms that harm the poorest, increase inequality<sup>38</sup> and undermine human rights.<sup>39</sup> This trend has been widely documented in the aftermath of the global financial crisis,<sup>40</sup> and so have responsibility of international financial institutions (including through the adoption of conditionalities) in the violation of human rights resulting from the implementation of austerity measures.<sup>41</sup> This trend is continuing in the aftermath of the Covid-19 crisis. For instance, Oxfam analysis found that the proposed austerity measures in the IMF loan agreements include increases to or the introduction of value-added tax (VAT) in 14 countries, and general public expenditure cuts in 55 countries. Both measures can have highly regressive impacts, particularly for women.<sup>42</sup> Oxfam and ActionAid<sup>43</sup> both found that wage bill cuts and freezes remain a target for rapid cuts once the initial stages of the crisis are over.

Prior actions in several DPOs directly or indirectly prescribe fiscal consolidation measures in full alignment with IMF loans (see Table 3 and 4). They are found in at least six countries (Costa Rica, Dominica, Ecuador, Jamaica, Mozambique and Saint Vincent) with DPOs that are explicitly related to Covid-19. In at least four countries, prior actions explicitly indicate the need for tighter fiscal spending through cuts in the public wage bill and, in the case of Montenegro, also of health spending for drugs with a clear aim of cost containment (see Table 4).

These prior actions suggest a close alignment with the two-stage approach seen also at the IMF: provide financial assistance and even encourage increased public support for business and social protection in the emergency phase of the crisis, but expect fiscal consolidation as soon as the emergency is over. The WB did scale up its support during the crisis and, as discussed in the following sections, did support countries in increasing health and social protection. However, it is doing this while also asking countries to commit to scaling down public spending in the short to medium term.

Programmes that restrict the fiscal and policy capacity of states to meet their international human rights obligations and climate commitments also justify the WB to subsequently make the case that, in view of the lacking state capacity to provide essential services and other development needs, the private sector is the only actor with the financial power (and expertise) to fill this gap. This creates a space for the International Financial Corporation (IFC) to provide advice to government and businesses, and finance to specific private sector projects. This 'tag team' approach – also known as acting as a World Bank Group – has undermined the structurally weak ability of the countries from the global south to chart its own development course since the 1970s even further.<sup>44</sup>

**Table 3: Countries where prior actions prescribe reforms enabling fiscal adjustment**

Type of fiscal adjustment prescribed	Countries
Adoption of fiscal rule or medium-term fiscal framework (i.e. impose a numerical limit on budgetary spending)	<b>Angola, Costa Rica, Dominica, Ecuador, Saint Vincent</b>
Additional measures to strengthen the fiscal responsibility framework (e.g. establishment of an Independent Fiscal Commission)	<b>Jamaica, Pakistan</b>
Adoption of medium-term debt strategy (consistent with medium-term fiscal framework)	<b>Fiji, Saint Lucia, Pakistan, Chad, The Gambia, Vanuatu,</b>
Additional measures to enhance debt sustainability and debt management	<b>Mozambique, Pakistan, Togo, Solomon Island, Somalia, Dominica, Costa Rica, Mozambique</b>

**Table 4: Countries where prior actions prescribe cuts in the public wage bill and**

Type of measures to control the public wage bill prescribed	Countries
Implementation of fiscal rule and limiting growth of non-financial public sector expenditure – frozen public sector wages and vacancies	<b>Costa Rica</b>
Eliminate redundancies in public staff and wage bill ceilings	<b>Burkina Faso, Dominica</b>
Containment of spending for pharma, time-bound staff optimisation and reinforce prioritisation of public investment, as part of public financial management	<b>Montenegro</b>

### 2.3 Transparency, accountability and oversight: for whom?

In recent years, the WB has taken several formal steps towards improving citizen engagement and social accountability in its operations. For instance, it adopted a Strategic Framework for Mainstreaming Citizen Engagement,<sup>45</sup> which makes compulsory to seek project beneficiary feedback; it launched a new Environmental and Social Framework (ESF), which requires projects to undertake stakeholder assessment plans<sup>46</sup> and created a Global Partnership for Social Accountability.<sup>47</sup> However, promoting reforms that enable citizen engagement is rarely an objective or a concern of DPFs.

The WB’s Independent Evaluation Group (IEG) review of DPF found that since the early 1990s, only 83 prior actions in 59 DPOs and only 20 DPOs in the period FY11-FY16 sought to enhancing citizen engagement and participation. It also found that only 10 percent of all prior actions in DPF since the early 1990s have broadly supported citizens’ capacity to act by improving access to law and justice; introducing conflict prevention mechanisms; or enhancing state capacity to respond to citizens’ demand through decentralization or judicial or civil service reforms.<sup>48</sup>

In the sample of 90 DPOs, in three countries there were prior actions focused on enhancing fiscal transparency and accountability towards citizens: in Paraguay the WB prescribed the adoption of a digital web-platform called Citizen Budget to increase budget transparency; in Uzbekistan the annual publication of ‘citizens budgets’ and in the Fiji the application of Gender Responsive Budget Principles in FY2020-21 budget process in two pilot ministries. No prior actions prescribed reforms to enhance citizens participation.

Instead, much more focus was placed on reforms to improve fiscal and debt management, transparency and accountability. In eleven countries<sup>49</sup> this is done prescribing online publication of data on public debt; in ten countries<sup>50</sup> emphasis is put on publishing regular data concerning SOE’s debt and credit risk. Other prior actions<sup>51</sup> put emphasis on ensuring transparency and accountability of public expenditure related to Covid-19 response.<sup>52</sup> A similar message was sent to countries by the IMF, which encouraged them to: *“spend as much as you can, but keep the receipt. We don’t want accountability and transparency to take a back seat in the crisis.”*<sup>53</sup>

By contrast, the set of DPOs examined strikes for the little attention placed on measures aimed at addressing a major type of corruption and poor governance affecting developing countries: tax dodging and illicit financial flows. Prior actions explicitly aimed at addressing this problem were only found in Paraguay (recommending to amend the Criminal Code so that it criminalizes money-laundering of assets obtained from tax evasion) and in the Seychelles (recommending the National Assembly to approve new legislation on combating money laundering and the introduction of a Beneficial Ownership Act<sup>54</sup>).

## 2.4 Private sector development and business support in the Covid-19 recovery

The use of DPF plays a fundamental role in realising the World Bank (WB)'s view of a conducive business environment, until now encapsulated in the highly controversial WB's flagship publication, the *Doing Business Ranking and Report*. It also contributes towards advancing the 'private finance-first' approach presented in the 2017 *Maximising Finance for Development* or 'Cascade' approach. The *Doing Business Reports* have ranked countries for 17 years based on the implementation of reforms in business (de)regulation policies. The *Maximising Finance for Development* aims at promoting private sector finance over public finance. According to the 'cascade' principles, the WB, "first seeks to mobilise commercial finance" and "only where market solutions are not possible through sector reform and risk mitigation would official and public resources be applied. Both these agendas have been the object of deep criticism in their own right (see section 3.1), but their promotion as pillars of the Covid-19 recovery is particularly problematic.

On the one hand, as already noted by Eurodad, the WB Covid-19 response is being widely used to promote a greater role for the private sector and for private sector financing.<sup>55</sup> Several Covid-19 response infrastructure projects put emphasis on reliance on public private partnerships (PPPs)<sup>56</sup> and approximately one third of the WB's Covid-19 response is likely to be channelled through the IFC.<sup>57</sup> This approach is especially detrimental in the context of the Covid-19 crisis because it expects governments to use their already scarce fiscal resources to attract private actors instead of strengthening their capacity and expanding public service provision.

On the other hand, these agendas legitimise governments when it comes to privileging private sector support over social protection in their Covid-19 response. Research by the Financial Transparency Coalition of nine countries in the global South found that they provided stimulus measures across the board equivalent to only 3.9 per cent of their Gross Domestic Product (GDP), with funds directed towards social protection totalling approx. 1 per cent of GDP.<sup>58</sup> In eight of these countries, 63 per cent of the announced Covid-19 funds went to large corporations rather than to micro, small and medium-sized enterprises (MSMEs) and social protection measures. Overall just 22.4 per cent of the announced recovery spending was in the form of social protection.

The 90 DPOs analysed in this research confirm this focus. The majority prescribed prior actions aimed at business support and private sector development; almost half of the Covid-19 DPOs in the sample (20 out of 45<sup>59</sup>) prescribed reforms to support the private sector facing the Covid-19 crisis. As discussed below, while many of these measures are meant to reach MSMEs, very few are explicitly designed to reach informal businesses and workers, which make up the majority of the private sector in developing countries.

Tax relief measures, which are relatively quick to implement, have been one of the most common measures adopted globally in support of businesses. The 90 DPOs in this research confirm this trend, with several prior actions prescribing a range of tax relief measures, including exemptions, deferrals and temporary reductions (see Table 5). As a comparison, in only two countries (Dominican Republic and Comoros) prior actions prescribed tax exemptions aimed at alleviating household tax burdens.

**Table 5: Tax measures in support of businesses**

Type of tax measures prescribed	Countries
VAT or custom duties exemptions and moratorium on other tax payment	<b>Cameroon, Uganda, Côte d'Ivoire, Comoros, Costa Rica, Guinea, Seychelles</b>
Tax payment deferral	<b>Colombia, Philippines, Uruguay (VAT), Dominican Republic, Uganda (Corporate tax), Costa Rica, Seychelles, Mozambique</b>
Temporary reduction of social security contribution	<b>Costa Rica, Croatia, Uruguay</b>
Temporary reduction in the Company Income Tax	<b>Dominica</b>

A variety of other measures have been adopted to provide liquidity to businesses (see Table 6). Prior actions recommend credit support through the creation of new liquidity windows, the support to microcredit institutions, and reforms in bank regulations, in most cases with an explicit focus on MSMEs. Another popular measure is the provision of credit guarantees (nine countries).

**Table 6: Liquidity support to businesses**

Type of instrument	Countries
Credit guarantees	<b>Afghanistan, Philippines, Uruguay, India, Côte d'Ivoire, Guinea, Mauritania, Peru, Tunisia, Paraguay</b>
Grants to businesses	<b>Jamaica, Saint Vincent</b> (in both, the focus is on small tourist businesses)
Wage subsidy/subsistence allowance programme for employee	<b>Philippines, Seychelles, Saint Vincent, India, Bangladesh, Croatia, Saint Lucia</b>
Credit support	<b>Bangladesh</b> (microcredit for microenterprises); <b>Colombia</b> (emergency credit lines for MSMEs via Bancodex+ concessional credit line for public service companies); <b>Costa Rica</b> (through state-owned commercial banks); <b>Croatia, Madagascar</b> ; <b>Paraguay</b> (expanding ANDE's directed credit programme for MSMEs); <b>Mexico, Mozambique</b> ; Uganda (permission to restructure business debt and additional credit lines); <b>India</b> ; <b>Madagascar</b> (creation of an additional credit line)
Measures for informal sector	<b>Bangladesh</b> (cash transfer scheme for informal workers and Livelihood Restoration Loan for microenterprises); <b>India</b> (basic package of benefits for informal workers); <b>Morocco</b> (cash transfer to informal sector employees through establishment of a Covid-19 Pandemic Fund); <b>Uganda</b> (public works programme for informal sector workers)

A number of considerations can be made regarding the ability of these measures to support the most vulnerable sections of the private sector (especially domestic informal businesses and workers) when it comes to facing the economic impact of the pandemic.

First, the opportunity has been missed to use emergency tax relief measures to correct the bias in developing countries' tax structures against MSMEs and in favour of large (often foreign) large corporations. While tax relief measures are more likely to reach small and informal businesses than credit measures, they also worsen the government's fiscal position by reducing tax revenues, which may negatively impact MSMEs that are more dependent on other forms of government support (e.g. public spending in employment training). Unless truly targeted only to MSMEs, and especially if turned into permanent tax exemptions, they would make the tax structure more regressive. In the dataset examined, three countries (Afghanistan, Côte d'Ivoire and Pakistan) were recommended prior actions aimed at making it easier to pay taxes for companies, mostly through the adoption of electronic payments. Indeed, prior actions in DPOs have been found to be explicitly designed to promote policies that would improve a country's *Doing Business* scoring.<sup>60</sup>

A second concern is the nature of the measures prescribed to support MSMEs. Many prior actions identified MSMEs as intended beneficiaries of the prescribed reforms, which, in line with the WB's approach,<sup>61</sup> tend to focus on improving access to the private commercial financial sector. This approach has raised several concerns,<sup>62</sup> and leads to neglect the use of direct state support measures, which are more helpful for MSMEs and their employees. In our DPO sample, prior actions mention direct grants to businesses in only two countries and the provision of a wage subsidy programme for employees to be channelled through employers in only seven countries.

A final issue is the lack of explicit focus on the informal sector. The prior actions reviewed in Table 5 and Table 6 do not specify what falls under the definition of MSMEs,<sup>63</sup> and in particular whether they include informal enterprises and workers. In only four of the DPOs analysed (in Bangladesh, India, Morocco and Uganda) prior actions explicitly mentioned interventions designed to benefit informal sector workers or enterprises. At the same time, no indications are given to how large a 'medium enterprise' can be, leaving space for manipulation of the measure away from the originally intended beneficiaries. For example, in India the criteria to provide emergency loans were extended so that larger corporations could access MSME loans.<sup>64</sup>

## 2.5 Public-private partnerships and privatisation in the public utilities sector

The Covid-19 pandemic has made evident worldwide the existential importance of universal quality public services<sup>65</sup> which are free at the point of use and provided by a strong state to fulfil the right to health<sup>66</sup> and more generally for the realization of people's rights, including to education, housing, water and sanitation.<sup>67</sup>

However, when looking at the DPOs implemented since January 2020, there are few signs that this lesson has been learned. Prior actions continue to be geared towards enhancing the participation of (national and foreign) private sector actors in the public utilities sector and state-owned assets. There are also no clear signs of an attempt to design these prior actions taking into consideration the possible negative consequences of privatisation on human rights, especially for the poorest people<sup>68</sup>.

In our sample, prior actions aimed at promoting private sector participation were found both in Covid-19 related and non Covid-19 related DPOs. A large set of prior actions required measures aimed at increasing the competitiveness and profitability of state-owned enterprises (SOEs) – for instance, through the adoption of new (higher) tariffs and the debt restructuring of the public utility (often a SOE), with the government absorbing the losses. In several countries, the government was also required to absorb the losses of public utilities companies caused by poor customers being exonerated from paying their bills during the Covid-19 crisis (see Table 7). 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 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.

The focus on increasing the financial efficiency and competitiveness of SOEs at the cost of tax payers 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, in light of a development agenda focused on structural transformation leaving them space to develop their industrial policies.<sup>69</sup>

**Table 7: Market-driven reforms of public utilities**

Market-driven reforms of public utilities	Countries
Adoption of a new tariff structure (often encompassing higher tariffs)	<b>Afghanistan, Angola, Ethiopia, Ecuador, The Gambia, Madagascar, Nepal and Niger</b>
Debt restructuring of the public utility	<b>Afghanistan, Benin, Cameroon, Ethiopia, The Gambia, Ukraine</b>
Review of subsidies	<b>Angola (fuel)</b>
Government absorbing Covid-19-related losses of public utilities companies	<b>Benin, Cameroon, Colombia, Niger and Uganda,</b>

Other reforms prescribed in the DPOs analysed and aimed at enhancing private sector participation in the energy and telecoms sectors include the granting of concessions and licences (in São Tomé and Príncipe, The Gambia, Cameroon, Ukraine and Niger in the water sector), the adoption of competition policies (Georgia, Morocco, The Philippines), and of new governance provisions (Sierra Leone). In six countries (Benin, Tunisia, Côte d'Ivoire, Ecuador, Niger, Pakistan) reforms were aimed specifically at enabling the entrance of private actors into the renewable energy sector.

Privatisation and liberalisation have also been pushed in the seed sector in Liberia and in Sierra Leone and in the affordable housing sector in Kenya. Prior actions promote the use of public-private partnerships (PPPs) in Ethiopia (in line with the 'maximising finance for development' programme implemented in the country), in The Gambia, in Niger, Angola and Colombia. In some cases, prior actions focus on correcting past mistakes made in promoting PPPs legislation that has proven to be excessively biased in favour of the private sector, with detrimental effects to public finances. For instance, in Colombia prior actions prescribe to update the methodology for evaluating contingent liabilities in infrastructure projects in the transport sector. This can be seen as an attempt to effectively address the fiscal risk of PPP, which resulted particularly evident when the Covid-19 negatively impacted the expected revenues of the private sector partner.

## 2.6 Social protection and health

As the Covid-19 pandemic exploded, the WB put a lot of emphasis on the role of social protection to make sure the poor and vulnerable were provided for during the crisis, as well as on the importance of providing health emergency responses.<sup>70</sup>

In this sense, the WB's support has helped countries face the immediate social and health consequences of the crisis. However, it has also maintained many of the pre-existing limitations and shortcomings to the way in which it deals with social protection and public service provision – for instance, failing to discourage the use of targeting in social protection and user fees in public health.<sup>71</sup> More generally, it has failed to acknowledge the responsibility of its previous country advice, most notably in the form of structural adjustment programmes, in weakening social protection and health systems,<sup>72</sup> reducing countries' ability to cope with health and social emergencies.

These trends are also evident in the DPOs analysed for this research. About half (22 out of 45) of the Covid-19 DPOs included prior actions explicitly aimed at social protection measures and reforms. Countries were required to strengthen their social protection response either by expanding existing systems or introducing new ad hoc and temporary funds. For example, Cameroon was required to expand coverage of the targeting social safety nets to 22,500 additional households and Peru adopted a new Temporary Cash Transfer Program for poor and vulnerable families. Some countries adopted a combination of both. For example, prior actions for Uganda prescribe a combination of the expansion of beneficiaries of social pensions, top up of existing programmes, distribution of food baskets and adoption of a labour-intensive public work programmes for two months. Some countries were asked to provide unemployment subsidies – for example Costa Rica and Bangladesh. A common measure adopted by several countries during the pandemic has been to exonerate vulnerable households from paying their water and electricity bills. Prior actions for this were found in Côte d'Ivoire, Mozambique, Guinea, India, Uganda, Niger and Togo.

The fact that many countries required urgent and broad scale up points to the insufficient and inadequate coverage of pre-existing targeting systems, the WB's prevalent approach to social protection delivery. For 2020, ILO estimated that developing countries would have needed to invest an additional US\$1.2 trillion – equivalent to 3.8 per cent of their gross domestic product (GDP) – to close their annual financing gap in social protection.<sup>73</sup> It also suggests that, despite the rhetoric, investment in social protection so far has been abysmally inadequate. In this light, the unwillingness of the WB to acknowledge the superiority and necessity of universal social protection floors and endorse the creation of a global social protection fund is particularly problematic.<sup>74</sup>

**Table 8: Social protection measures**

Type of social protection measures prescribed	Countries
Covid-19 related social protection measures	Expansion of existing system (increase in coverage and/or top up of benefits) <b>Uganda, Tunisia, Peru, Mozambique, Ecuador, Cameroon, Côte d'Ivoire, Jamaica, Pakistan, Rwanda, Seychelles, India, Togo, Madagascar</b>
	Creation of a new temporary fund <b>Dominican Republic, Morocco, Philippines, Uganda, Peru, Bangladesh, São Tomé and Príncipe</b>
	Temporary unemployment benefits <b>Saint Vincent, Costa Rica, Dominican Republic, Bangladesh, Uruguay</b>
Subsidies to pay for public utilities (electricity and/or water) during Covid-19	<b>Côte d'Ivoire, Mozambique, Guinea, India, Uganda, Niger, Togo</b>
Reforms to cash transfer/social protection programmes (non Covid-19 related)	<b>Angola, Brazil, Burkina Faso, Croatia, Fiji, Haiti, Pakistan, Philippines, Jamaica, Peru</b>
Creation of a national social registry (Covid-19 and non Covid-19 related)	<b>Colombia, Comoros, Burkina Faso, Côte d'Ivoire, Liberia, Mauritania, Philippines, Serbia, Uganda</b>
Special measures for migrants	<b>Ecuador, India, Philippines</b>



With regards to health, we found 42 health-related prior actions across 25 DPOs. The majority relate to the adoption or strengthening of plans, protocols or frameworks to strengthen pandemic preparedness and response. Although there are important overlaps between the adoption and strengthening of plans for pandemic preparedness and response, and the resilience and capacity of health systems, overall very few of the prior actions prescribe measures designed to strengthen public health systems so that they can tackle the present and future crisis.

For example, very few prior actions prescribe measures to improve access to health services by removing financial barriers, through, for example, lowering the income threshold or paying contributions for Voluntary Health Insurance (Croatia, Rwanda), targeting free healthcare for children under five, pregnant and breast-feeding women and gender-based violence (GBV) victims (Central African Republic). None of the DPOs envisions an overall abolishment of user fees or making public health services available to all free of charge.

Only four of the prior actions in the database address the issue of health workers, with a targeted increase of skilled health professionals at each health facility in Rwanda, safe work practices and provision of adequate personal protective equipment (PPE) for health workers in Afghanistan and training and “systemic counting and rationalization of the distribution” of health staff in Madagascar. In the Jamaica programme, health workers are mentioned as one of the priority groups for vaccination.

**Table 9: Health-related prior actions**

Category	Number of prior actions pertaining to category
Measures to strengthen pandemic preparedness and response by adopting national emergency/response plans	13
Lifting import duties/emergency process for purchase of medical products and services	4
Measures to strengthen animal health and adopt a One Health approach	3
Strengthening health system capacity and resilience	3
Improving transparency and accountability of Covid-19 funds	7
Improving mother and child health	3
Improving access to health services	5
Health workers	4
Other	3

## 2.7 Energy transition

DPF has been found to represent a significant loophole in the WBG’s pledges to end finance for coal power plants and upstream oil and gas. Recent research found that, while 43 policy-based operations across 30 countries implemented between 2014 and 2018 were targeting renewable energy growth, just as many operations were targeting the growth of fossil fuel sectors across at least 25 countries.<sup>75</sup> Between 2014 and 2018, prior actions supported new oil and gas investment incentives in at least four countries and new coal investment incentives in at least three countries. In Indonesia, Mozambique and Pakistan, investment incentives were targeted specifically at upstream oil and gas.<sup>76</sup> Such distortions are possible because fossil fuels are not included in the WB’s list of Excluded Expenditures, which has been repeatedly asked for by civil society organisations (CSOs).<sup>77</sup>

The sample of DPOs analysed for this research does not include prior actions directly aimed at promoting new investments in fossil fuel, but the evidence overall does suggest that the WB is still far from providing policy advice consistent with achieving a just energy transition away from fossil fuels, towards renewable energies.<sup>78</sup> In some cases its advice can undermine countries' achievement of their Nationally Determined Contribution (NDC).<sup>79</sup>

In the sample of DPOs analysed, in at least two countries (Afghanistan and Ecuador) prior actions prescribed institutional reforms to strengthen the enabling environment for investment in the hydrocarbon sector. In at least three countries, the burden of reducing emissions (and the burden of reducing public expenditure in hydrocarbons) is placed on the consumer, through the elimination of fossil fuel subsidies. For example, both Ecuador and Sudan were asked to phase out gasoline subsidies, despite the measure being met with strong popular opposition in both countries.<sup>80</sup> In Mozambique, the contradiction in the WB's policy advice is especially evident. On one hand, the most recent DPO demands the introduction of a fuel price stabilisation fund based on a levy on fuel prices, placing the burden on consumers. On the other hand, the WB has been found to support large foreign direct investment in fossil fuels in the country through its technical assistance<sup>81</sup> and to use policy-based operations to support increased investment in mining, oil, gas and coal.<sup>82</sup>

Finally, several DPOs include prior actions that aim to strengthen the renewable energy sector, especially through the involvement of the private sector. For instance, Benin, Côte d'Ivoire, Tunisia, Pakistan, Niger and Ecuador are all advised to introduce measures to allow private actors to produce and distribute renewable energy. However, there is no or little attention to increasing public investment in renewable energy or providing monetary incentives for domestic producers.

## 2.8 Gender equality and women's rights

Over the years, the WB has developed and internalised a "business case" for gender equality and women's empowerment. This "business case" maintains that gender equality equates to smart economics<sup>83</sup> because, in helping to create a fairer society, it also raises economic productivity and progress in other development goals. This rationale has been criticised<sup>84</sup> for failing to capture the structural discrimination against women in the form of patriarchal, cultural and social norms that continue to play a central role in social life, and for its simplification of the relationship between gender equality and economic growth.<sup>85</sup>

As a reflection of these shortcomings in the WB's approach to gender, CSOs have found the WB has a blind spot when it comes to gender equality and women's rights: the WB fails to account for and take adequate measures towards mitigating the specific impact of their macroeconomic policy advice on women. Two recent studies by the Bretton Woods Project found that macroeconomic prior actions in DPOs do not incorporate a gender perspective and that, more generally, DPOs neglect to assess the gendered dimension of prior actions with substantial social and poverty risks.<sup>86</sup> This has been the case, for instance, in Ecuador, Kenya, Jamaica, Gabon, Serbia and Montenegro, among others.

The analysis of prior action in the 90 DPOs in the sample confirms that this trend even persists in the WB's Covid-19 response. We identified only 14 prior actions directly related to gender equality and women's rights in ten countries, touching on a variety of policy issues, including childcare (Bangladesh), gender budgeting (Fiji), social housing (Mexico), child marriage (Niger), access of overseas employment opportunities (Tonga) and violence against women (Uruguay). A greater emphasis on gender is found in the indicators listed in each project document and is meant to be used to assess the results of the DPOs. We identified 41 indicators out of 90 that relate to gender-related outcomes.

More problematic, and in line with the evidence found elsewhere, is the pursuit of macroeconomic policy reforms liable to have a large negative impact on women. This is the case in several of the reforms discussed in previous sections. For instance, in the removal of gasoline subsidies in Sudan and Ecuador, or the adoption of a new tariff structure that would likely result in higher prices for consumers in The Gambia and Ethiopia. The recommendation is not accompanied by a gender-impact analysis in any of these cases – for instance, scrutinising whether women and women-led households are more likely to be negatively affected because of their greater reliance on energy subsidies. This is also the case of prior actions prescribing cuts in the public wage bill in Burkina Faso, Ecuador and Montenegro.<sup>87</sup> Finally, prior actions prescribing measures in support of businesses for Covid-19 recovery do not specify how these should be designed to target women-led businesses, nor include indicators that should help monitor their gender impact.

The promotion of such reforms is particularly problematic in light of the disproportionate impact of the Covid-19 pandemic on women. The pandemic has deepened the importance of the household and of care work for the organisation of economic activities, increasing women's responsibilities<sup>88</sup>. Policies that result in increased cost of essential goods and services add to these burdens and deepen gender inequality.

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## 3. World Bank's policy lending and its discontents

Development Policy Financing was created in 2004 by merging Sectoral Adjustment Loans (SECALs) and Structural Adjustment Loans (SALs), which were heavily used at the time of the Washington Consensus promoted by the WB and the IMF in the 1980s and early 1990s and which played a fundamental role in pushing the principles of neo-liberalism in the policy making of developing countries. The creation of DPF was largely an attempt to address the increasingly evident failure of structural adjustments and the criticism of the use of conditionalities by the WB.<sup>89</sup>

As already seen in the previous section, DPF maintains many of the problems of its predecessors. This largely rests around the use of conditionalities as an instrument of undue influence on countries' policy space, constraining the adoption of development paths diverging from the WB's blueprint and undermining the meaningful and democratic design of the social contract. This means curtailing countries' ability to even imagine a different model to transform and re-build their economy in the context of the Covid-19 recovery and the climate transition, "through the portal into a different world".

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 unfair neo-colonial North-South relations. Albeit in a changing global context, these are the same power dynamics that have been allowing wealth extraction from the global south and preventing their full and equitable development for centuries.<sup>90</sup> The governance structure of the WB (and of the IMF), with its Northern-dominated quota system, sits at the very core of this unfair system.

The following sections unpack the current main criticisms moved to DPF, linking them to the evidence analysed in section 2 from the database of 90 DPOs.

### 3.1 A major channel for implementation of the WB policy blueprint

The WB is not a monolithic institution and neither is its political advice. Yet, some policy agendas tend to prevail in driving its operational work. Two agendas in particular have prevailed in the past decade: the *Doing Business* and the *Maximising Finance for Development*. Eurodad has been a strong critic of both for their emphasis on liberalisation, privatisation, the over-reliance on market mechanisms and the use of private finance as central for countries' economic development.

The *Doing Business* Rankings and Reports (DBR) have been repeatedly criticised for pushing countries into a race to the bottom in terms of deregulation and liberalisation.<sup>91</sup> Often, it has been a competition entrenched with business interests and geo-political motivation, guided by attracting foreign investment to the detriment of local workers and businesses. The DBR has been the object of several scandals concerning undue pressure in data manipulation to alter countries' scoring,<sup>92</sup> at the point that the WB in September 2021 announced that it was discontinuing its publication.<sup>93</sup> However, in the same statement, the WB also strongly signaled its intention to continue advancing its business climate agenda, therefore ruling out a clear break with the past.

The *Maximising Finance for Development* (MFD) approach promotes private finance by supporting changes in the regulatory framework that give more favourable conditions to private investors. These include changes in laws that alter risk-reward calculations, and provide subsidies, guarantees and various other risk-mitigation instruments.<sup>94</sup> As mentioned above, an important tool to leverage private finance promoted by the MFD approach are public-private partnerships (PPPs). These are claimed to be more efficient at delivering public services and infrastructure, but in fact evidence continues to show how they are failing,<sup>95</sup> usually to the detriment of the poorest people.<sup>96</sup>

As seen in section 2, both these agendas feature strongly in the DPOs approved during the Covid-19 pandemic, which also demonstrate lack of any clear break from the past in the type of policies promoted. The DPOs reviewed also lack any engagement with the human rights implications of the reforms promoted, consistently with the WB's argument that it can't bring human rights considerations into its conditionalities and policy lending in reason of their political nature. However, this same argument is not applied to economic reforms in social spending, taxation, employment law, privatisation and financial regulation, which all have equally highly political implications.

### 3.2 Incoherence in the approach to transparency and accountability

Development Policy Financing – and policy lending at large – is often criticised for its patchy and incoherent approach to transparency and accountability. A major problem is the use of conditionality as a tool to increase transparency and accountability and to fight corruption. There are several issues at stake here.

First, the emphasis on corruption is misplaced, being mostly focused on domestic state corruption and neglecting private and transnational corruption, which tends to thrive in the kind of large-scale PPPs and foreign direct investment in infrastructure promoted by the WB.<sup>97</sup> In fact, measures to eliminate corruption have been seen as instrumental in terms of improving a country's ranking in the DBR and attracting more foreign investment.<sup>98</sup> As previously mentioned, the DBR has been recently discontinued following evidence of undue pressure and ethical misconduct in its production. This continued demonstration of conflict of interest in the WB's advice with respect to business promotion seriously undermines its legitimacy when it comes to imposing conditions and the trust that it is doing so in the interest of the poorest people.

Second, the DPF approach confounds policy conditionality with conditionality and transparency safeguards in accounting and fund management. The latter are indeed necessary and important; some CSOs have even called for stronger transparency measures to be attached to IMF Covid-19 emergency loans.<sup>99</sup> However, they also noted how enhancing transparency requires "public oversight, particularly from civil society groups and the media. To facilitate oversight, the data needs to be accessible and sufficiently detailed to assess and track spending, and conditions need to be in place to ensure that concerns can be raised safely".<sup>100</sup> This could be done, for instance, by depositing Covid-19 financing into a separate bank account that is publicly audited, and training media and civil society to scrutinise and use these data. These measures do not require a policy conditionality framework to be prescribed and implemented. As explained by UN Human Right Independent Expert Juan Pablo Bohoslavsky: "One thing is to create a business climate that would encourage investment while reducing the incentives for corruption, [...] another thing is to do so without effective institutional safeguards and consideration for the human rights of people in the face of corporate and private actors."<sup>101</sup>

An additional problem, strictly linked to the one above, is that that DPOs emphasise transparency and accountability primarily towards the WB and its shareholders, focusing on transparency in fiscal and debt management and procurement<sup>102</sup> and only occasionally towards a country's citizens. Much less emphasis is put on measures to ensure public oversight of public spending and improve government accountability towards citizens vis-a-vis the long-term negative consequences of macroeconomic policies, as also seen in the DPOs reviewed in section 2.3. This casts serious doubts on the degree to which these coercive instruments can promote country ownership (see section 3.3).

Finally, DPF itself lacks transparency and accountability. While the WB has made an online database of DPOs and their prior actions publicly available,<sup>103</sup> understanding the far-reaching social and environmental implications of these measures requires sophisticated analysis and country-specific knowledge. On the one hand, this makes it difficult for civil society to hold the WB to account for the impacts of its policy advice. On the other hand, it weakens its accountability and leads to a poor record of implementing Poverty and Social Impact Analysis (PSIA) of DPOs and of generating evidence of the actual impact of DPF on people and poverty reduction.

PSIA is used in DPF as the instrument to determine whether the policies supported by an operation are likely to have poverty and social effects. The WB's Independent Evaluation Group (IEG) has found great variance in the quantity and quality of PSIA actually conducted, with its use largely left to staff discretion and in need of improvement.<sup>104</sup> The IEG report also highlights the lack of a system to monitor and evaluate environmental and social risks and their mitigation after a policy is implemented, concluding that the policy, procedures, guidance and practices are characterised by a number of gaps and inconsistencies, vaguely defined concepts, a lack of accountability and misaligned incentives.<sup>105</sup> DPF is not subject to the WB's Environmental and Social Framework (ESF), which is used to identify the environmental and social risks of WB's projects.

This is indeed problematic given that, in DPF, the impact of policy reforms can occur well after the money is fully disbursed, depends on how reforms are implemented and is at best difficult to attribute. Even more problematic is the WB's poor record of conducting impact reviews of DPF. These are supposedly run every three years. However, the last DPF Retrospective was conducted in 2015,<sup>106</sup> meaning that there is no evidence of what its contributions towards achieving the WB's goals of eradicating poverty and enhancing shared prosperity has been since then.

### 3.3 Undermining countries' policy space and democratic ownership

Through DPF, the WB exerts an incredible influence over a country's policy development and it can significantly restrict the space for endogenous and autonomous decision-making, especially if not adhering to the WB's blueprint. The different channels through which this influence takes place have been noted and challenged by academics and civil society, especially in the global south.

DPF has a direct influence on a country's policy space due to the legally binding nature of prior actions and the strict alignment of DPOs with the other WB tools for countries' engagement, such as country's Partnership Framework and Systematic Diagnostic. DPF's influence also acts through a number of indirect channels of "soft power", which are hard to scrutinise. The WB's ideology and policy ideas shape national policies through loan conditions,<sup>107</sup> but also through research, analytical and advisory services<sup>108</sup> and its authority as a knowledge institution.<sup>109</sup>

The WB's direct and indirect influence is often the result of a dialectic with country governments, in which it may be up to the governments themselves to propose first the reforms to be included in DPOs. However, in some cases, it may be up to the WB to push for reforms that are opposed by domestic vested interests or to suggest civil society consultations. However, even with such a dialectic at play, the power dynamic remains one in which the WB retains the financial power and therefore the ability to determine the outcome of the bargain, while countries at best 'adapt their preferences' to those of the WB.

The strength of the WB's influence also comes from its close alignment with that of the IMF and other international institutions.<sup>110</sup> As seen in section 2.2, countries eligible for DPOs often have an IMF programme or have recently completed one. Efforts to increase multilateral coordination in policy lending and national development finance at large have increased in recent years. For example, the *G20 Principles for effective coordination between the IMF and MDBs in the case of countries requesting financing while facing macroeconomic vulnerabilities*<sup>111</sup> were adopted in 2017, updated in 2018 and recently in 2021.<sup>112</sup>

While multilateral coordination efforts are depicted as aiming to increase policy coherence and effectiveness, they effectively lock countries into multiple frameworks of policy conditionalities that impose a strict adherence to a particular policy blueprint and leave no space for pursuing alternative solutions and policy mixes based on rights-based approaches.<sup>113</sup> Policy coherence is then another channel to strengthen the influence of the global north on national policy-making in developing countries.

A notable example of this dynamic is the efforts made by the WB and the IMF to curtail the public wage bill and the minimum wage in Ecuador.<sup>114</sup> The IMF first recommended a containment of both in 2015,<sup>115</sup> in the loan programme agreed in 2019<sup>116</sup> and in its Covid-19 emergency renewal in 2020.<sup>117</sup> From its side, the WB has included prior actions requiring the same in its DPOs with Ecuador. For example, the 2020 Second Inclusive and Sustainable Growth DPO requires the government to "reduce the number of sectoral and occupational minimum wages that are fixed and improve the timeline for setting minimum wages".

Ownership is further undermined by the poor record of stakeholder engagement and citizen accountability highlighted above, and which defy the purpose of budget support.

DPF does require stakeholder consultation during the preparation phase. However, the WBG's Independent Evaluation Group (IEG),<sup>118</sup> in a sample of DPOs conducted between FY11 and FY16, found that, when consultation with stakeholders occurred, this was always in the context of discussion of a country's national development plan or poverty reduction strategy instead of focusing on the reforms at stake. Most DPOs did not report which stakeholders were consulted and, if they did, it was only referencing general categories such as "academia", "CSOs", and "private sector". Stakeholder mechanisms are also not a substitute for parliamentary discussion and oversight, which is rarely explicitly mentioned in DPOs.

Budget support on its own is an ideal tool to promote country ownership, but its monitoring and oversight by civil society and citizens is difficult unless adequate mechanisms and flows of information are designed with the intent of supporting citizen consultation and participation.

### 3.5 The hypocrisy of 'green conditionalities'

On the surface, the urgency of the climate crisis and the difficult challenge posed by the Paris Agreement's targets may justify the use of policy lending and policy conditionalities to accelerate the energy transition. Many low- and middle-income countries are large fossil fuel, carbon or gas producers and phasing out from these sectors will generate resistance from economic and social sectors. Conditionalities would therefore help to accelerate much-needed policy and economic change.

However, the energy transition rests on a fundamental global injustice: poor countries are being asked to undertake rapid transformation in the way they produce and use energy to address a problem – the excess of carbon emission in the atmosphere – that they have only marginally contributed towards generating. Not only is the historical production of carbon emission almost entirely generated by the global north,<sup>119</sup> but still today the richest ten per cent of people in the world produce around half of global emissions. The poorest half of the world's population – 3.5 billion people – is responsible for just 10 per cent of carbon emissions.<sup>120</sup> Yet, rich countries have been failing to meet their commitment to provide US\$100 billion in climate finance to help developing countries in their energy transition.<sup>121</sup> This on its own makes the use of conditionalities – and of any other instrument of prevarication from the global north and international institutions – hypocritical and inappropriate.

Other elements at play make the use of green conditionalities by the WB hard to justify. As discussed above, prior actions applied in the past two years reflect at best the WB's contradiction in dealing with fossil fuels (promoting phasing out with one hand and incentivising investment with the other), while considering the involvement of the private sector as the ultimate solution to all problems.

In this light, green conditionalities are just another entry point for undue influence on countries' policy space to be used for the green washing of programmes that push liberalisation and

countries do not need to be forced to take climate action through policy conditionality. Nationally Determined Contributions (NDCs) are countries' obligations that do not need a Northern-led institution (like the WB) to put conditions on its development path. What the global south needs is to be given the resources and policy space to take climate action and to be able to do so while taking care of the fundamental human rights of their people, without replicating the global injustice that underpins climate crisis and the need for energy transition.

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**Green conditionalities are just another entry point for undue influence on countries' policy space to be used for the green washing of programmes that push liberalisation and privatisation to restrict fiscal space**

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## 4. Overcoming the policy lending doctrine: the way forward

In leading the response to the pandemic, the World Bank had the opportunity to start playing a truly progressive and transformative role and to help countries rebuild their economies in the context of the Covid-19 recovery and the climate transition, "through the portal into a different world."

However, based on the analysis of the use of World Bank (WB) policy lending in the Covid-19 response, so far the WB has failed to break away with the past.

The continuity with the past is evident in the type of policies promoted in Development Policy Financing (DPF) projects, as well as in the continued reliance on prior actions as an instrument to attach conditionality to budget support. This use of DPF entrenches a way of bringing about change that rests on neocolonial power dynamics, with international institutions in the global north continuing to occupy developing countries' policy space.

Deep structural reforms are needed for the WB to start help countries turn the crisis into an opportunity to build a fairer and more 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. It also implies moving away from the WB's private-finance-first, gender-blind policy blueprint and starting to promote reforms that are the results of meaningful and transparent consultation with the local civil society.

A substantive review of DPF's operational policy is necessary to prevent promoting a biased policy agenda and to fully respect democratic ownership when influencing national policy making. This requires the WB to:

- i. minimise the use of prior actions;
- ii. end the use of economic policy conditionality, particularly those focused on fiscal consolidation and on enhancing the role of the private sector in public services delivery;
- iii. increase meaningful consultation with a wider range of stakeholders, including civil society organisations, trade unions and women's rights organisations;
- iv. promote reforms that are explicitly focused in strengthening public oversight and citizen participation in fiscal accountability;
- v. strengthen the Poverty and Social Impact Assessment of DPF including the development of a human rights policy and impact assessment methodology, to be applied to both projects and policy lending;
- vi. adopt measures to increase the transparency and accountability of DPF, in order to enable citizens and the civil society to monitor DPF projects and their impact on government policy. This includes greater transparency on which stakeholders have been consulted and how their opinion has been taken into consideration; regular and systematic update of the database of DPOs with prior actions and amount disbursed; conduct more frequent DPF Retrospective with greater civil society consultation.

The WB should also urgently conduct a new updated Development Policy Financing Retrospective to assess its contribution to the WB's goals of eradicating poverty and enhancing shared prosperity.

Finally, to regain credibility and legitimacy, the WB must undertake a deep review of the way in which it conducts its research and translates it into country policy advice, including the use of policy conditionality and paid and unpaid technical assistance.

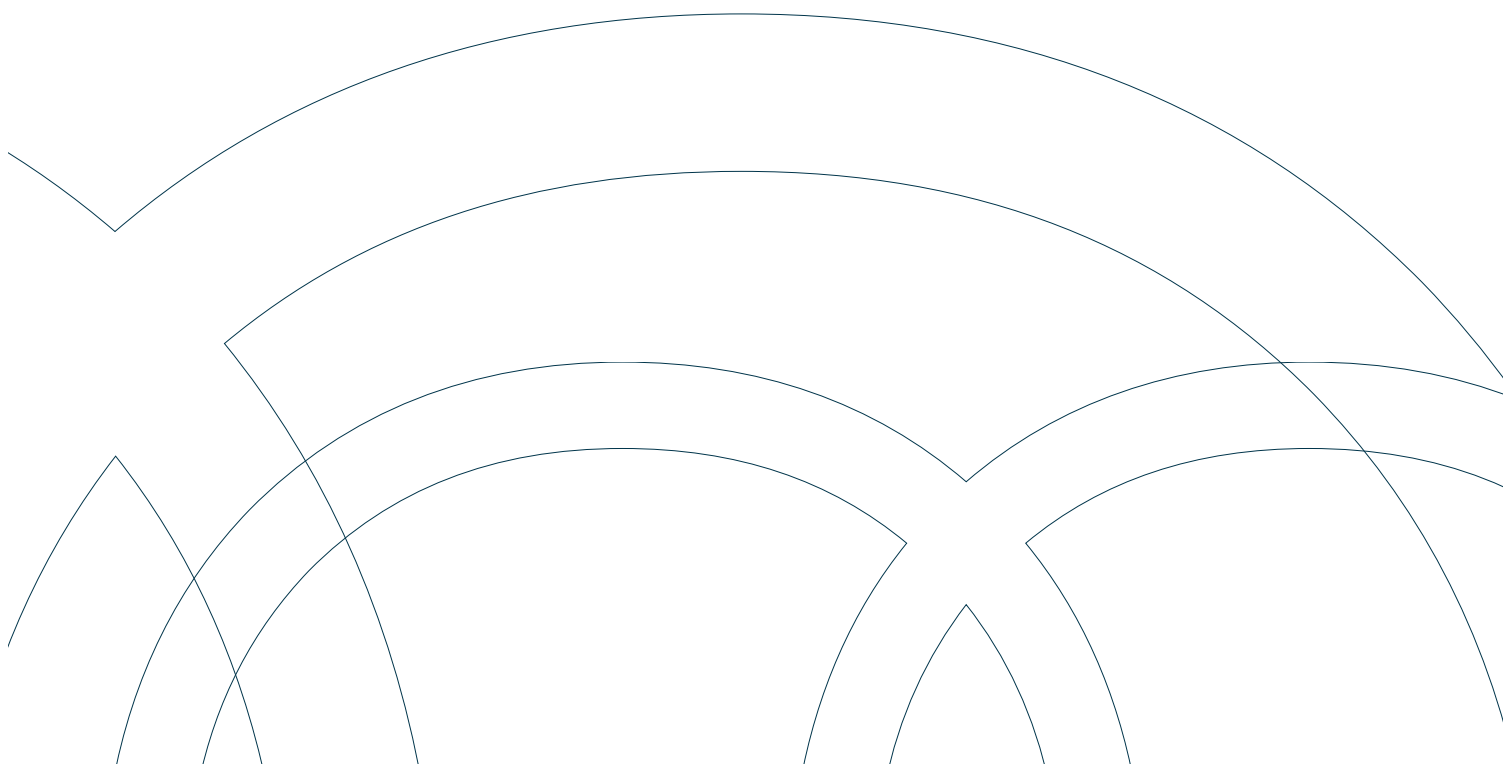
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