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Submission on the 2021 Development Policy Financing (DPF) Retrospective

DPFs make up a significant portion of World Bank financing, representing 26 percent of overall Bank financing in the latest Retrospective period covering July 2015 to June 2021. Given the significance of this instrument, it is unacceptable that civil society has been invited to provide input to the Retrospective's *Executive Summary* and *Overview* slides, rather than into a full document, its methodology and design. As with other major recently undertaken policy processes, like IDA20 replenishment and the development of the new *Climate Change Action Plan 2021-2025*, the consultative process on the latest DPF Retrospective has lacked credibly substantive engagement with civil society. The World Bank has failed to include civil society early and often into its review, and has failed to explain how it will take into account civil society comments, in direct contradiction to the Bank's own consultation guidelines. Without a satisfactory consultative process, we are led to conclude, as did 17 global CSOs in a recent letter to World Bank Executive Directors, that the World Bank problematically treats civil society consultations as nothing more than a box ticking exercise, raising chilling concerns around the transparent and accountable use of public money. As a civil society organization in a country that is the largest shareholder of the World Bank, this lack of transparency and accountability surrounding the use of public funds is especially concerning to us.

On the website of this fifth DPF Retrospective, the World Bank states that it "systematically distills lessons from DPF Retrospectives as part of an ongoing effort to learn from implementation." However, considering the continuity in the types of policy reforms included in DPF prior actions from past reviews to present such as fiscal consolidation and contested private sector oriented reforms; the instrument's continued exemption from safeguard frameworks; as well as the non-inclusive, undemocratic process of attaching policy reform conditionalities to budget support, the Bank is demonstrating that it is in fact not distilling lessons from DPF implementation, or listening and meaningfully addressing longtime critiques, despite decades of engagement with and recommendations by civil society, including Friends of the Earth.

While the *Climate Change Action Plan for 2021-2025* celebrates the Bank's pivot in approach from greening projects to greening whole economies, the Bank has taken no steps to align the finance provided through its DPF instrument with existing Bank exclusions of coal and upstream oil and gas that apply to direct project finance, and we still await a methodology on how the Bank will align policy based operations with the goals of the 2015 Paris Agreement. The DPF Retrospective Executive Summary and Overview slides fail to address these critical questions.

Research by civil society has shown that despite science sounding the alarm on "code red" climate change, and decarbonization trends fueled by technology advancements and political commitments, DPF prior actions have not gotten the price of carbon right, but rather, have continued to make it easier and

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more profitable for fossil fuel companies to operate in client countries, through policy reforms that increase the return on investment or return on equity of fossil fuel investments, including through the lowering of tax liabilities that apply to fossil fuels; 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, for example in Indonesia and Jamaica.

The DPF Retrospective *Executive Summary* notes that DPF operations during the period under review have included an increasing number of climate mitigation and adaptation related reforms, but fails to explicitly detail what constitutes climate change related prior actions. Problematically, one of the examples of climate-related DPFs referenced on Slide 47 of the Retrospective overview is Pakistan, where, according to research from Urgewald, the World Bank-supported reforms to increase energy tariffs - done in the name of reducing energy subsidies - made new coal power investments in Pakistan the most profitable in the world. This disconnect between expected outcomes articulated by the Bank and actual implications and risks of prior actions it supported raises serious concerns about the rigor and independence of the Bank's screening tools, policy advice, and assessments.

In addition, the DPF Retrospective *Executive Summary* claims that "almost all DPFs include some climate finance," but fails to describe what qualifies as climate finance, and how this accounting is done in the context of non-earmarked budget support.

The World Bank must engage in meaningful consultation processes with stakeholders including civil society organizations, and work to strengthen public oversight and citizen engagement in fiscal accountability, including DPF monitoring. It should strengthen its impact assessments of DPF including by integrating gender analyses in these, in meaningful consultation with civil society. Fundamentally, it should limit the use of prior actions in DPF and hold meaningful and inclusive stakeholder consultations on how to appropriately align the use of prior actions with principles of country-owned development, inclusion, democracy, and global equity.

On climate and energy, it should ensure that DPF is urgently aligned with the goals of the Paris Agreement and principles of the civil society review on the equitable phase out of fossil fuels, in early, continuous and meaningful consultation with civil society. It should explain how it is accounting for climate finance through non-earmarked budget support, and how it defines climate change related prior actions, as well as what is meant by the "green, resilient, and inclusive" set of policy reforms vaguely proposed on the Retrospective website. It should adopt a "do no harm" approach and include coal, oil and gas associated activities in the Excluded Expenditures list of the financing agreements of budget support given to countries, which should be ensured by monitoring that client governments do not increase their budget expenditures for fossil fuels as a result of receiving budget support.