

May 13, 2024

Ajay Banga

President

World Bank Group

Washington, DC 20433 USA

Via electronic mail

Dear Mr. Banga,

We are writing to urge the World Bank to begin a process to review and revise Bank governance of Development Policy Finance (DPF). The need to reconsider the policies that govern DPFs is critical within the context of the Bank's Evolution Roadmap discussions. The new "One World Bank Group" approach and the push to be "bigger" and "better" will benefit greatly by enhanced DPF governance and effectiveness.

DPFs, also referred to by MDBs as policy-based loans (PBLs), have grown to become one of the most important financing mechanisms of the World Bank, currently representing about a third of IBRD and IDA's commitments. However, despite being such a large portion of the Bank's portfolio, the formulation and implementation of DPFs is largely opaque. This results from significant gaps in the policies and guidelines governing DPFs, which have only seen marginal improvements since they were adopted two decades ago. DPFs represent a safeguards blindspot compared to the Bank's Investment Project Financing (IPF), as they are not governed by the Environmental and Social Framework (ESF) and therefore do not have the same requirements for consultations and transparency. The Independent Evaluation Group's (IEG) [review](#) of the DPF portfolio in 2015 identified DPFs as having significantly higher social and environmental risks than IPFs. The review also provided recommendations for strengthening the Bank's approach to environmental and social risk management in terms of guidance, procedures, incentives, and accountability mechanisms. These recommendations are important as the Bank has fallen behind the standards of other MDB, including the European Bank of Reconstruction and Development and the Asian Development Bank, which do not exclude PBLs from binding social and environmental safeguards policies.

To avoid and mitigate the adverse impacts and risks generated by DPFs, it is essential that operations consult stakeholders, including by producing a stakeholder engagement plan prior to board approval, as currently required for IPFs, that is updated and revised

as it is implemented. In current DPF guidelines (OPS5.02-POL.105), countries lead in the formulation of DPF documents, while the Bank only “advises (the government) to consult with and engage the participation of key stakeholders in the country.” Voluntary stakeholder consultations lack a systematic process for DPFs to take input from impacted communities. Because of this, consultations on the impacts of a DPF sometimes do not happen at all, or, even where they do, there may be no record of input received during consultations. Consultations may also take place without document disclosure, preventing stakeholders from being able to provide meaningful input. Furthermore, the ‘stakeholders’ consulted may not include those most affected by the DPF and its prior actions, as there are no criteria for defining stakeholders to include impacted and marginalized communities.

The Bank should set clear requirements for the consultations process for all phases of a DPF, including prior to board approval, during the decision-making processes, the selection and validation of prior actions, and monitoring within the implementation and evaluation phases. DPF policy should comprise a systematic approach to stakeholder engagement, including identifying stakeholders, processes for incorporating stakeholders’ views into the DPF, and information disclosure that is timely and accessible for all parties.

Mirroring the requirements in the ESF, the consultation process in DPFs should reflect a deep consideration of vulnerability factors. This entails extending the scope of consultation beyond traditional stakeholders to include marginalized groups such as indigenous peoples, children, minorities, and persons with disabilities.

The current policy should also be reformed to provide more disclosure and access to information throughout the entire DPF project cycle. Stakeholder engagement can only serve as a catalyst for improvement if information is shared ahead of project consideration by the Board. The current ex-post publication of the documents and prior actions after Board approval erodes the democratic process in the countries where DPFs are implemented by barring parliamentary access to project information. Beyond that, it also undermines the legitimacy and civic ownership of projects to predominantly hold negotiations about public policy and the investment of public money behind closed doors. This can potentially have far reaching systemic consequences for a country’s economic stability. Current efforts to streamline the approval of operations should provide adequate time for consultation with communities.

It is not clear how or if Operations Policy and Country Services (OPCS) has made any changes to DPF governance in response to the IEG report, nor if the several letters from CSOs requesting it to review its policies have had any impact on Development

Policy Operations. We hope that the World Bank can see this message as an invitation for a deeper dialogue between the OPCS and Civil Society. We urge the World Bank to consider the importance of revising DPF governance to improve the Bank's impact and look forward to discussing our suggestions.

Sincerely,

Accountability Counsel
Bank Information Center
Both ENDS
Bank Climate Advocates
Bretton Woods Project
CAFOD
CNCD-11.11.11
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Recourse
Sustentarse
Urgewald e.V.
ITUC/ Global Unions
Indus Consortium

CC: Anna Bjerde, Managing Director of Operations