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Is Development Policy Financing truly effective and transparent?

Case studies from Colombia, the Philippines, and Argentina expose the World Bank's misleading claims on climate action and a lack of transparency in Development Policy Financing.

Development Policy Financing (DPF) is widely used by the World Bank and by other Multilateral Development Banks (MDBs) under the broader category of Policy-Based Lending, in support of public policies and institutional reforms in borrowing countries aimed at climate action and broader development goals.

Yet the design of DPF operations remains opaque, making it difficult to verify the Bank's claims around effectiveness and additionality, and for interested stakeholders to share their views and concerns about policies supported by these investments. This is particularly concerning in the context of the climate crisis, since the Bank increasingly relies upon DPF to support countries in advancing climate mitigation and adaptation reforms. According to the Bank's own reporting, 42 percent of DPF include climate co-benefits.

DPF also tends to lack ambition, representing a missed opportunity to strengthen the capacity of implementing countries and lay the groundwork for future operations, including public and private sector investment projects. A report by the Independent Evaluation Group found that DPF holds potential to strengthen the capacity of national environmental and social systems. Harnessing this potential is crucially important, as the Bank continues to shift toward greater reliance on borrower systems.

The Bank's upcoming DPF Retrospective, its periodic review of the performance of its DPF operations, offers a timely opportunity to examine where the DPF instrument could be used more effectively to further the Bank's climate and other development goals, and to initiate reforms that address the systemic issues associated with DPF, including lack of transparency and accountability.

A. Missed Opportunities: The Cost of Insufficient Consultation and Disclosure

DPF provides direct budget support, disbursed once a set of "Prior Actions," typically consisting of policy or regulatory reforms, has been completed and verified. Prior Actions are typically negotiated directly between the Bank and governments, and in some cases, without public participation. Unlike investment

projects where consultation is required, the Bank Policy on DPF advises but does not require governments to consult with stakeholders.

Although the reforms embedded in DPF may appear to be only abstract policy changes, they can become disruptive for local communities. The First Energy Transition DPF in the Philippines, for example, lifted a cap on foreign ownership of energy resources, a change criticized by local organizations for undermining Filipino industry ownership. By the time the Bank approved the operation, the removal of this cap had already been challenged as unconstitutional. Its follow-up operation, the Second Energy Transition and Climate Resilience DPF, drew similar resistance. One of its Prior Actions was the approval of the country's offshore wind auction framework, which has advanced without meaningful consultation of the coastal communities whose fishing grounds, seascapes, and marine ecosystems stand to be affected. Fisherfolk associations say leases were granted over traditional fishing grounds without prior consultation and warn that construction and operation will reduce their catches and harm their livelihoods.

Another concerning element of DPF is the limited and insufficient public disclosure of their documents, a problem that gains special relevance considering the large scale of DPF operations, which can range from USD$500 million to USD$1.5 billion. This falls well short of the disclosure standards required in project financing. In many cases, the Bank does not make DPF documents public before Board approval; when it does, the disclosure may amount to only a two- to three-paragraph summary listing Prior Actions by title alone, without substantive explanation or risk analysis. In the case of the $1.5 billion Argentina: Fiscal Sustainability and Competitiveness DPF, Prior Actions were only disclosed after Board approval, and the pre-approval materials offered little more than the project title and a single-sentence description of its two objectives, with no mention of a substantive risk analysis or consultation. Only 16 days elapsed between publication of the initial Program Information Document and the Board vote.

In monitoring these operations, BIC has advocated repeatedly for the Bank to conduct stakeholder consultations. Staff have responded that consultations already took place during preparation of the Country Partnership Framework (CPF) or within technical assistance operations that shaped the DPF, since DPFs are theoretically anchored to the Bank's CPF process, which is expected to include stakeholder consultations.

Evidence compiled by BIC and partners on CPF processes tells a different story: CPF consultations with civil society frequently function as superficial information-sharing or validation exercises rather than channels for genuine

strategic input. In many cases, CPF processes lack sufficient detail and depth for civil society to provide input on specific planned reforms or projects. For the Indonesia CPF, the Bank held a single consultation session in May 2026, for the country's five-year CPF, without providing substantial background materials or a clear understanding of the scope and approach of the Bank's actions in the country. The final CPF document was published without any opportunity for additional feedback, failed to respond to suggestions calling for greater climate ambition, and did not reflect the input shared by participants.

The cases of Indonesia and the Philippines, in particular, illustrate how failures in stakeholder consultation recur throughout the lifecycle of policy finance — from country diagnostics, CPF formulation, technical assistance, and DPF — design and how they contribute to suboptimal outcomes, social conflict, and environmental degradation.

B. Misattribution of Results

Because of the lack of transparency during the creation of prior actions it is difficult to determine to what extent the Bank can take credit for policy change or reforms achieved through DPF. This raises significant questions about how rigorously the Bank tracks and reports results, including climate co-benefits, and underscores the need for clearer results-reporting standards.

The Equitable and Green Path Development Policy Financing II, approved for Colombia in 2025, offers valuable insights into this issue. According to research by BIC's Colombian partner, Asociacion Ambiente Sociedad, the government had already planned and begun climate reforms, including the elimination of fuel subsidies, well before opening DPF negotiations with the Bank; this reform was already included in the country's 2020 National Determined Contributions (NDC) and in Colombia's 2022–2026 National Development Plan. Although the Bank mentioned the need for subsidy removal in its CPF, Country Climate Development Report (CCDR), and DPF documents, it provided no evidence that its involvement contributed to any changes. Referencing the need for policy changes is not proof that the Bank itself contributed to the measures the government adopted, if the Bank fails to disclose any mechanisms used to promote such reforms.

Despite this, the Bank reported the project as having climate co-benefits, crediting $266.9 million of the $700 million loan as finance for climate mitigation.

C. Fungibility and the Limits of Budget Earmarking

A central feature of DPF is that they provide non-earmarked budget support; once funds enter the national treasury, they are no longer linked to specific expenditures. This creates risks of poor traceability and fungibility, since governments can reallocate resources according to their own fiscal priorities. Consequently, even when DPF documents outline alignment with climate objectives, funding could just as easily support unrelated or countervailing expenditures.

The Independent Evaluation Group (IEG) has raised concerns about the Bank's attribution claims for DPF. A 2023 report noted that "the assignment of climate co-benefits to development policy operations is problematic [...] because the financing provided by a development policy operation does not go to finance the reforms supported by a prior action."

The Colombia DPF illustrates these risks as well. In January 2026, the Petro Administration announced the partial restoration of fossil fuel subsidies it had previously eliminated and that the Bank had credited as a Prior Action. This revealed that a reform the Bank had documented as durable was, in fact, reversible, and that its actual contribution to climate finance was smaller than initially claimed.

BIC's Recommendations for Improving DPF Policies

The Bank should use the upcoming retrospective to scrutinize its recent DPF portfolio for transparency, meaningful consultation, and contribution to development results, especially in climate finance. We hope to engage in the review to modernize the DPF process, specifically driving updates to:

1. **Stakeholder engagement in DPF design and implementation:**

   DPF operational practices should require systematic and meaningful consultation with communities facing impacts and risks from DPF operations. World Bank Executive Directors and Management have acknowledged the need to strengthen existing requirements and move beyond the current approach, which requires concrete provisions in the Bank Policy on DPF and clearer guidance for country teams. Consultations should follow a systemic approach that engages civil society throughout the development and implementation of country diagnostics, Country Climate and Development Reports, Country Partnership Frameworks, and operations such as DPF, Program-for-Results (PforR), Technical Assistance, and Investment Project Financing.

2. **Transparency and disclosure:**

   The Bank should publish all underlying technical information and assessments related to DPF operations and make this information accessible to stakeholders before an operation is approved. The Bank should claim attribution only for operations explicitly designed to support climate or other policy goals from the outset, and only when it clearly explains how its resources will contribute to the policy change.

3. **Resource alignment:**

   The Bank should encourage countries to use DPF funding to implement policies aligned with the agreed Prior Actions. As IEG recommends, Overview Assessments and other environmental and social diagnostics and risk analyses should inform the selection and sequencing of Prior Actions. Capacity-building measures should identify priorities, responsible institutions, implementation timelines, and financing needs, rather than present long lists of disconnected reforms. More importantly, the Bank should leverage DPF funding not only to support policies but also to strengthen the institutions responsible for implementing them, and to pursue ambitious reforms rather than simply endorse policies already underway.

The Bank's ongoing DPF Retrospective offers a direct opportunity to confront these gaps and address these shortcomings in the next cycle.

FOR FURTHER INFORMATION ON THE ISSUES RAISED IN THIS REPORT, PLEASE CONTACT BANK INFORMATION CENTER AT:

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