



The Reality of Aid

Southern-led North/South Network on the Reform of Aid Policies and Practices

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POLICY CONDITIONALITY IN THE 21st CENTURY: A close look at Development Policy Financing in Indonesia and the Philippines

Introduction

Conditionality has been a consistent hallmark of World Bank loans beginning with its Structural Adjustment Programs (SAPs) that were first introduced in the late 1970s after a series of global economic disasters. Since its inception, the Bank has used its lending power as leverage to set the fiscal parameters within which developing countries can access much needed loans especially during times of economic recessions. These conditionalities often have deleterious effects on the economies of developing countries including economic stagnation, the gradual reduction of state support for agriculture and other domestic industries, the erosion of national sovereignty, and pushing countries toward an overall direction of deregulation, privatization and liberalization.

In 2004, following heavy criticisms from the development community and an internal review of the World Bank's policy and practice in instituting conditionalities, the Bank devised a new operational policy called Development Policy Finance (DPF). According to the Bank, the main objective of DPFs is to support policies in developing countries that would help them "achieve sustainable growth and efficient resource allocation."¹ The Bank claims that DPFs are different to its predecessor [SAPs], in that these have 1) greater emphasis on government ownership of reform programs; 2) greater flexibility in programs supported by the Bank; and 3) limited prior actions as opposed to a long list of conditions in multi-tranche operations. But a closer look at DPF operations especially in the context of the COVID-19 pandemic would reveal otherwise.

This briefing paper aims to unpack the Bank's agenda in using DPFs to forward its policy prescriptions especially in the time of the COVID-19 pandemic. The Reality of Aid examined loan conditions attached to Development Policy Loans (DPLs) in Indonesia and the Philippines from the onset of the pandemic in 2020 up to the present. The analysis looks at the two case studies with particular attention to prior actions, or the conditions borrowing countries need to fulfil before the loans are disbursed. This paper is a combination of desk-based research and inputs from civil society partners. It includes an analysis of existing literature, including official loan documents from the World Bank as well as reports from other CSOs.

I. A closer look at DPFs

Policy conditionality is an integral part of the World Bank's Development Policy Financing (DPF) instrument. DPFs have long been criticized by civil society, academics and borrowing states for undermining democratic country ownership, restricting policy space, and its harmful impacts on human rights and the environment. Philip Alston, the former UN Special Rapporteur on extreme poverty and human rights, argues that "DPF contributes to maintaining the Bank's reputation as a 'human-rights free zone'" since it "contradicts and undermines the consistent recognition by the international community of the integral relationship between human rights and development."²

DPF is one of the three main lending instruments used by the World Bank alongside its Investment Project Finance (IPF) and its Program for Results (P4R) schemes. Unlike the other lending instruments, DPF loans are not earmarked

¹ World Bank (2017). Bank Policy: Development Policy Financing. Accessed from: <https://ppfdocuments.azureedge.net/b98d432b-7471-441b-9f39-36b7c380bd05.pdf>

² Bretton Woods Project (March 2021). What is World Bank Development Policy Financing? Accessed from: <https://www.brettonwoodsproject.org/2021/03/what-is-world-bank-development-policy-financing/>

for specific projects such as bridges, dams or other infrastructure operations, but instead support targeted policy reforms and provide finance directly to a borrowing country's general budget. Out of these financing instruments, the DPF is notorious for its loan conditionality aspect that allows the Bank to impose neoliberal policies of deregulation, privatization and liberalization on borrowing country governments.

Box 1

Types of IFI Conditionalities.

Generally speaking, there are three forms of conditionalities imposed by International Financial Institutions (IFIs) such as the World Bank. These forms can be categorized into the following:

1. Financial conditionalities – includes financial terms such as loan duration and payment terms and interest rates.
2. Macroeconomic conditionalities – meant to achieve macroeconomic targets through policy reforms.
3. Structural conditionalities – the most intrusive form of conditionality that entails changing the architecture of national economies and political systems.

The conditionalities set by DPFs can be categorized under structural reforms while also implementing a mix of financial and macroeconomic conditions.

Source: OECD & European Commission

Conditionality by a different name

Policy conditionalities are not new especially if the Bank is concerned. Before the existence of DPFs, the Bank implemented a series of SAPs as a means to 'restore economic growth through stabilization in the short run and adjustment in the medium term.' SAPs functioned similarly to DPFs by imposing conditionalities through structural adjustment lending, concentrated on the reform of key economic policies and sectors in borrowing states.

The transition from SAPs to DPFs began in August 2004, merging other lending instruments. This change is partly in response to criticisms from civil society and after an internal review of the Bank's policies and operations which objectively resulted in greater poverty in developing states (see Box 2). But even with the purported reforms in its lending policy, DPFs retained all of the problematic features of SAPs, with conditionalities now more commonly known as prior actions. Prior actions are policy and institutional reforms deemed critical by the Bank to achieving its objectives aligned with a DPF operation.

World Bank Structural Adjustment Programs and the case of Ghana

The World Bank and IMF claimed that one success of the adjustment programs in Ghana was higher prices for agricultural products, which benefited the farming population. In reality, even though the cocoa industry received a large influx of money under adjustment programs, the majority of the population experienced limited gains. The increases in the price of cocoa affected only about 18% of the cocoa-farming households in Ghana. Five years into structural adjustment, the benefits of the rise in the price of cocoa for farmers were highly skewed, with just 32% of farmers receiving 94% of gross cocoa income.

Instead of reducing poverty, SAPs actively contributed to it by forcing layoffs in both the government and the private sector. In the first decade of structural adjustment in Ghana, 200,000 individuals in the public sector lost their jobs. These cutbacks decreased the size of the labor force in formal sector employment to less than 10%. Unemployment rose from about 10% in 1980, to 19% in 1987 and to 21% in 1993, with job losses affecting urban and educated citizens in particular.

Source: Odutayo, A. (2015). Conditional Development: Ghana Crippled by Structural Adjustment Programs.

Prior actions are preconditions that borrowing states have to comply with before receiving the actual loan disbursements. Loan approval under DPF lending is generally conditioned on the following: “(a) satisfactory implementation of the program supported by the DPF, including compliance with the program’s prior actions and tranche release conditions; and (b) maintenance of a satisfactory macroeconomic policy framework.”³ This macroeconomic policy framework is also developed by the World Bank, often with the help of the International Monetary Fund (IMF) and the International Finance Corporation (IFC).⁴

In comparison with the SAP and its conditionalities, which explicitly intended to make structural reforms, DPF imposes ‘positively’ framed prior actions. But its effects have incessantly been met with criticism for its tendency to undermine a borrowing country’s sovereignty. In retrospect, countries that aimed to borrow under structural adjustment loans (SAL) prior to 2004 had to “enter into agreement with the Bank promising structural adjustment in accordance with a comprehensive program of policy action.”⁵ In fact, it is acknowledged that the “common thread running through [SAL’s] packages is that the degree of state

³ World Bank (2017). Bank Policy: Development Policy Financing.

⁴ Ibid.

⁵ Bajpai, N. (1990). World Bank’s Structural Adjustment Lending: Conflicting Objectives, Economic and Political Weekly, 25, no. 15, 791. Accessed from: <https://www.jstor.org/stable/4396166>

control over the economy must be reduced.”⁶

DPF’s bank policy, on the other hand, states that development policy operations “are supportive of, and consistent with the [Borrowing] Country’s economic and sectoral policies.”⁷ This is contradicted by the influence of DPF prior actions on the economies (and public management) of borrowing countries, as well as the World Bank’s non-compliance with the Busan Partnership Agreement’s call for “a ‘country-led’ approach to development and [the utilization of] mutually agreed [assessment] tools” when it comes to development cooperation.⁸

Despite its claims that DPF loans are consistent with member countries’ priorities, the World Bank’s influence as a major source of credit and its imposition of policy conditions necessarily imply its hand in shaping laws and policies normally reserved to the state’s sovereign decision-making powers. This becomes particularly problematic in the context of the Bank’s governance structure and leadership (see Box 3).

Box 3

The gentleman’s agreement between the IMF and WB

Since its creation in 1944, the IMF and the World Bank has upheld a ‘gentleman’s agreement’ ensuring the IMF managing director is always from Europe and the World Bank president from the United States. The Bank’s most recent change in leadership to US’ David Malpass in April 2019 attests to the fact that this ‘gentleman’s agreement’ remains alive despite longstanding criticisms from civil society organizations of this highly undemocratic governance practice.

Source: Bretton Woods Project, What is the ‘gentleman’s agreement?’

Crisis begets conditionality

In response to the global financial crisis and resulting worldwide recession, the Bank stepped up in financial support particularly in 2009 and 2010. DPFs supported reforms mainly in the areas of the financial sector, fiscal management, and access to trade finance. While many would argue that DPFs during this time also supported safety net programs and social protection policies, these same programs are often proven to be unsustainable in practice. Meanwhile, a vast majority of prior actions were focused on creating a more business-friendly

⁶ Ibid.

⁷ World Bank (2017). Bank Policy: Development Policy Financing.

⁸ Brunswicjk, G. (2019). Flawed Conditions: The Impact of the World Bank’s Conditionality on Developing Countries. Accessed from: <https://www.eurodad.org/flawed-conditions>

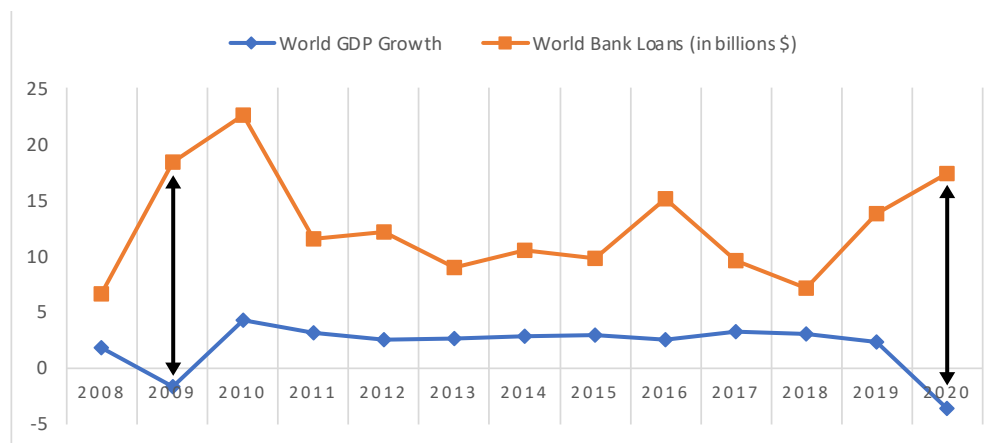
climate in borrowing countries.

For example, while the USD50 million employment Development Policy Loan (DPL) to Tunisia in 2009⁹ resulted in the reform of labor market policies, including additional social safety net for unemployed workers, another USD500 million DPL¹⁰ was focused on reducing tariffs on Tunisian exports such as agricultural crops. The latter DPL further reinforced agricultural trade liberalization in Tunisia that has long been targeted for reform with SAPs in the 1990s. This mix of policy prescriptions led to lower farmgate prices and the exclusion of small and medium-sized family farms from credit, land and support services. In addition, the employment DPL geared to promote Tunisia's labor mobility opened employment opportunities abroad for workers (including landless farmers) without creating domestic conditions for decent jobs and living wages.¹¹

This trend of locking in developing countries into loan agreements that pursue policy reforms meant to liberalize their economies can be observed elsewhere.

Figure 1

World Bank DPF Loans Correspondingly Increase during Economic Crises



Source: World Bank; World Bank Annual Reports 2016, 2018 & 2020

At the macro level, it can be observed that the amount of lending from DPLs increase correspondingly to economic crises (see figure 1). This is not a coincidence by any means. DPFs are governed by Bank Procedure 8.60¹² and the Bank Policy on Development Policy Financing. The latter explicitly states its objective to address shocks related to natural disasters and/or health events through a “deferred

⁹ World Bank (2009). Project Information Document: Tunisia Employment DPL (MILES). Accessed from: <https://documents1.worldbank.org/curated/en/685911468120255751/pdf/PID-010ConceptoStage010Jano2010.pdf>

¹⁰ World Bank (2010). Program Document for a Proposed Integration and Competitiveness Development Policy Loan in the Amount of USD\$250 Million to the Republic of Tunisia. Accessed from: <https://documents1.worldbank.org/curated/en/714211468312566812/pdf/475560PGD-0P095101OfficialUseOnly.pdf>

¹¹ Jouili, M. (2015). Tunisian agriculture: are small farms doomed to disappear? Accessed from: <https://hal.archives-ouvertes.fr/hal-01180353/document>

¹² World Bank (2004). BP 8.60. Development Policy Lending. World Bank Operational Manual. Accessed from: <http://web.worldbank.org/archive/website00527/WEB/OTHER/3371A4-4.HTM?>

drawdown option for catastrophe risks.”¹³ According to the World Bank’s last review of DPFs in its 2015 Retrospective, DPLs accounted for an average of 29 per cent of total Bank lending, although this has risen to nearly 40 per cent in the aftermath of the 2008 global financial crisis. The Bank’s DPF portfolio increased again in the aftermath of COVID as DPFs accounted for 47 per cent of IBRD lending and 28 per cent of IDA lending respectively in the fourth quarter of 2020.¹⁴

II. The case of the Philippines

The Philippines has been a recipient of WB DPLs since 2007. An initial host of prior actions focused on fiscal reforms that created new markets for big business and expanded the Value-Added Tax (VAT) base. Since the onset of the pandemic, the Philippines received a total of four (4) DPF loans:

Project ID	Loan Project	Board Approval	Loan Amount
P171440	Third Disaster Risk Management Development Policy Loan	April 9, 2020	US\$500,000,000
P174120	Emergency COVID-19 Response Development Policy Loan	May 28, 2020	US\$100,000,000
P170914	Promoting Competitiveness and Enhancing Resilience to Natural Disasters	December 16, 2020	US\$600,000,000
P175008	Philippine First Financial Sector Reform Development Policy Loan	June 6, 2021	US\$400,000,000
Total Loan Amount			US\$1,600,000,000

Source: World Bank Project Database

In total, the Philippines received US\$1.6 billion in DPF loans during the course of the pandemic thus far. But only 6.25 per cent or US\$100 million of these loans incentivize COVID response. Looking deeper, only six (13 per cent) out of 28 prior actions of these four DPF loans are directly related to COVID response. Conversely, most of the prior actions implemented throughout this period are focused on 1) fiscal policy reforms meant to attract greater foreign investment, 2) next steps in implementing the agricultural liberalization law, and 3) implementation of the much-criticized national identification (ID) system, and 4) other policies aligned with ease of doing business.

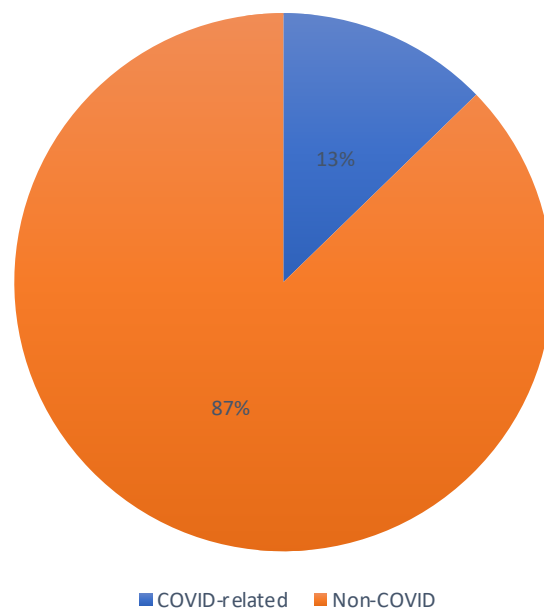
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¹³ World Bank (2017). Bank Policy: Development Financing Policy. Accessed from: <https://ppf-documents.azureedge.net/b98d432b-7471-441b-9f39-36b7c380bd05.pdf>

¹⁴ Bretton Woods Project (March 2021). What is World Bank Development Policy Financing? Accessed from: <https://www.brettonwoodsproject.org/2021/03/what-is-world-bank-development-policy-financing/>

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Prior Actions (COVID and non-COVID related) in Philippine DPF loans (2020-2021)



Source: World Bank Projects Database

In 2020, under a US\$400 million DPL, the Philippines fulfilled prior actions including next steps in the full implementation of the Rice Tariffication Law and the National ID System, both of which are heavily criticized reforms under the Duterte Administration.

Liberalization of the Agricultural Sector

Republic Act No. 11203 or the Rice Tariffication Law (RTL) was signed by President Rodrigo Duterte on February 14 and took effect on March 5, 2019. The law essentially removed government limits called quantitative restrictions (QRs) on rice importation. This meant that rice traders could now import unlimited volumes of rice at any time, despite the fact that the Philippines is a rice-producing country. The RTL is in line with the Philippine government's commitments to the World Trade Organization (WTO) to deregulate the rice industry by eliminating all regulatory barriers to rice importation. Prior to the passage of the RTL, proponents of the law claimed that greater import

liberalization in the rice sector would significantly lower domestic rice prices, tame inflation, and moderate malnutrition and poverty in the country. But a closer look at its impacts show that local food producers suffered drastic losses far surpassing any gains to consumers. In addition, a few importers and big-time traders cornered tremendous profits from rice trade liberalization at the expense of millions of farmers, millers and other market players, who were swamped by the deluge of cheap and undervalued rice imports.

In 2019, with nearly 3 million tons of imported rice, the Philippines quickly overtook China as the world's biggest rice importer. The Rice Tariffication Law effectively clipped government supervision over the rice industry and ceded control to the private sector. By doing so, it has severely undermined its regulatory capacity to stabilize the rice market, safeguard producer and consumer welfare, and ensure food security. Estimates indicate that rice producers in the Philippines lost around Php80 billion (USD1.6 billion) in 2019 due to the selling price of palay (rice grain/unhusked rice) plummeting by 33 per cent.

With the RTL taking effect in March 2019, 2 million tons of imported rice created a serious glut that raised national stocks to 42% over historical levels. The oversupply coincided with the peak of the main harvest season in October and November, making it all the more difficult for traders to dispose of their stocks in a market flooded with cheap imported rice. Farmgate prices plunged to an average of Php14.40 per kilo in October 2019.

Figure 2 shows that nationwide farmgate prices of palay were recorded at Php17.62 per kilo in August 2020, a 21% drop from 2019. Retail prices of regular-milled and well-milled rice, in contrast, have dropped by 10% and 7% respectively. There is considerable variation in rice prices across the regions. Farmgate rice prices have plummeted to as low as Php9 per kilo in Pampanga and Php7 per kilo in Nueva Ecija and Bataan.¹⁵

According to independent thinktank IBON Foundation, rice farmers' net income per hectare in 2019 decreased by 32 per cent in the dry season, 47 per cent in the wet season and by 38 per cent on the average.¹⁶ This is compared to pre-RTL figures in 2018, showing the lower returns for small-scale farmers. Rice liberalization has severely affected local rice farmers who were not able to compete with cheap subsidized imports. The purported Php10 billion (USD198 million) tariff revenues allocated to support the local rice industry pales in comparison to Vietnam's USD1 billion and Thailand's USD7 billion in annual subsidies to their rice farmers.¹⁷

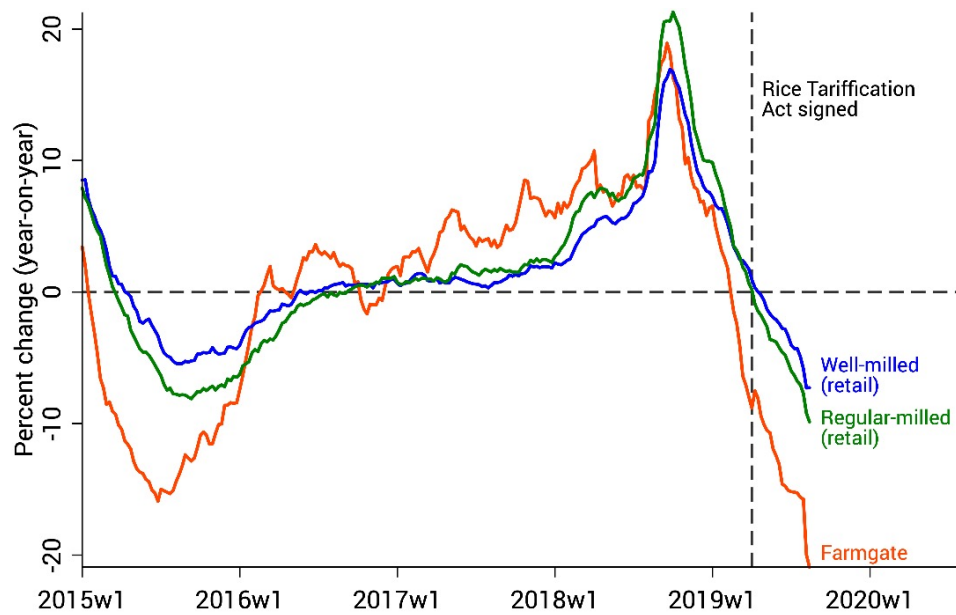
¹⁵ Punongbayan, JC (2019). Plummeting Rice Prices: How will our rice farmers cope? Accessed from: <https://www.rappler.com/voices/thought-leaders/analysis-plummeting-rice-prices-how-will-our-rice-farmers-cope>

¹⁶ IBON Foundation (2021). Rice tariffication harmed farmers. Accessed from: <https://www.ibon.org/rice-tariffication-harmed-farmers/>

¹⁷ IBON Foundation (2019). Rice tariffication puts PH food security at risk – IBON. Accessed

Figure 2

Farmgate prices of palay drop 21% in 2020



Source: Philippine Statistics Authority

Threats to civic rights

Meanwhile, the other law supported by World Bank DPL prior actions was Republic Act No. 110055 or the Philippine Identification System Act, which was signed into law in 2018 but implementation was stalled. Critics of the National ID system have aired concerns that the system might be used to violate privacy as well as a means for control and repression.¹⁸ In particular, KARAPATAN Alliance for People's Rights alleged that the proposed National ID system along with the granting of subpoena powers to local police forces is part of the Duterte administration's repressive measures against critics.¹⁹ Through the national ID system, the government has full unprecedented access to citizens' personal data. Critics point out that regardless of the strength of safeguards for data protection, a national ID system necessarily normalizes the surveillance of citizens, promoting discrimination and harassment in the long run.²⁰

from: <https://www.ibon.org/rice-tariffication-puts-ph-food-security-at-risk-ibon/>

¹⁸ Philippine Daily Inquirer (8 August 2018). National ID systems draws mixed reviews. Accessed from: <https://newsinfo.inquirer.net/1018829/national-id-systems-draws-mixed-reviews>

¹⁹ Philippine Star (12 March 2018). Karapatan: Police subpoenas, National ID system 'legitimize repression' Accessed from: <https://www.philstar.com/headlines/2018/03/12/1796047/karapatan-police-subpoenas-national-id-system-legitimize-repression>

²⁰ Foundation for Media Alternatives (2017). The National ID Debate: Is the Philippines Ready? Accessed from: <https://www.apc.org/sites/default/files/Briefing-National-ID-3.pdf>

II. The case of Indonesia

Indonesia has been a recipient of DPF loans since 2004, with a wide variety of macroeconomic and policy reforms targeted at expanding the business climate for greater foreign investments. The Bank has pursued this same line of policy reforms through its different lending instruments, and notably through the pressure exerted by its Doing Business Report (DBR) rankings. The Bank's DBR 2020 report commended Indonesia for instituting broad-based reforms related to ease of doing business indicators, mainly through the Omnibus Law.

The Indonesian government's primary motivation to enact the Omnibus Law on Job Creation was precisely to rank higher in DBR rankings. The Omnibus Law aims to "attract investments and liberalize trade" in Indonesia through its amendment of 76 individual laws and abolishment of two laws.²¹ These changes purportedly strengthen the Indonesian economy by "increasing competitiveness, creating jobs, and making it easier to do business in Indonesia."²²

In various instances, the Bank has defended Indonesia's enactment of the Omnibus Law and has endorsed it in various DPF loan documents. This is despite wide opposition to the law for its reforms that have far-reaching implications on labor rights, women's rights, and environmental protection. The Omnibus Law and its many provisions would later on play a role in the Bank's agenda to further liberalize Indonesia's economy. It would also provide further access to funding for big businesses, including companies heavily dependent on oil and coal.

Analyzing DPF loans received by Indonesia, we see the following projects:

Project ID	Loan Project	Board Approval	Loan Amount
P170940	Indonesia First Financial Sector Reform Development Policy Financing	March 20, 2020	US\$300,000,000
P174025	Indonesia First Financial Sector Reform Development Policy Financing: COVID-19 Supplemental Financing	May 15, 2020	US\$300,000,000
P173232	Indonesia Second Financial Sector Reform Development Policy Financing	June 10, 2021	US\$500,000,000
P172439	Investment and Trade Reforms DPL	June 15, 2021	US\$800,000,000
Total Loan Amount			US\$1,900,000,000

Source: World Bank Project Database

²¹ World Bank (2020). Indonesia Investment and Trade Reforms DPL. Accessed from: <https://documents1.worldbank.org/curated/en/134701607058605327/text/Concept-Program-Information-Documents-PID-Indonesia-Investment-and-Trade-Reforms-DPL-P172439.txt>.

²² Van der Velde, F. (2021). Indonesia's Omnibus Law and Effects on Foreign Investors in 2021. Greenhouse. Accessed from: <https://greenhouse.co/blog/omnibus-law-indonesia/>

Indonesia has received a total amount of US\$1.9 billion worth of loans from four (4) DPFs, but none of these loans contained a results framework that was exclusively focused on COVID-19 response. Out of the total 27 prior actions of the four DPF loans, only one is directly related to COVID response.

Rights reversed

The Omnibus Law is greatly contested for its negative impacts on workers, women and Indigenous groups. For investors, the reforms enacted by the law generally implies simplified business licensing, eased foreign investment restrictions, relaxed labor laws, and streamlined corporate tax regulations. The law removed certain protections against outsourcing which could depress wages even further. It slashed leave entitlements and social security provisions for many workers, shortening maternity leaves for women. It weakened minimum wage standards across the country, extended the allowable maximum overtime hours, and allowed employers to keep workers on temporary contracts indefinitely.

The Omnibus Law also weakened legal protection for Indigenous groups, which raise serious concerns about land grabbing.²³ The drafting of the bill itself was under question for failing to align with the Sustainable Development Goals and for being driven by the business community with little consultation with labor unions and other affected communities. Journalists and protesters against this law were met with violence by the Jokowi administration.²⁴

Weakened environmental protection systems

The Omnibus Law effectively relaxed environmental protection standards in the name of attracting greater investments. It removed the requirement to maintain 30% of the country's watershed as forest area. In addition, mining companies were allowed to be exempt from paying royalty fees as long as they develop downstream facilities, such as coal-fired power plants. This relaxation of environmental protection laws undermined the ability of civil society actors to hold extractive industries accountable for environmental damages. This DPL-supported move paved the way for more public investment in fossil-fuel dependent entities such as Perusahaan Listrik Negara (PLN), a state-backed monopoly distributor of electricity in Indonesia.

²³ Human Rights Watch (2020). Indonesia: New Law Hurts Workers, Indigenous Groups. Accessed from: <https://www.hrw.org/news/2020/10/15/indonesia-new-law-hurts-workers-indigenous-groups>

²⁴ Mulyanto, R. (2020). Why the Omnibus Law is Not Only an Assault on Workers' Rights but also on Indonesia's SDG Progress. Equal Times. Accessed from: <https://www.equaltimes.org/why-the-omnibus-law-is-not-only-an#.YPqQxlMzaCR>

Box 4

World Bank's Coal Financing in Indonesia

DPFs in Indonesia have incentivized fossil fuel development, including subsidies given to Public-Private Partnership (PPP) projects which predominantly comprise coal power plants. All of these DPF-supported investment incentives directly contradicts the World Bank's Climate Change Action Plan that seeks to align with the Paris Climate Agreement. And despite PLN's moratorium on new coal plants by 2023, it still plans to build coal-fired power stations that are already financed and under construction until 2025.

Source: Bretton Woods Project, World Bank's plans for Indonesia: Delayed action on climate and continued coal and gas support

IV. Analysis

The DPFs' imposition of conditions and structural reforms allows the World Bank to exert systematic influence on the legal and policy framework of these countries. The effect is increasing alignment with major private financial interests, dubbed the post-Washington Consensus. The impacts of prior actions associated with DPFs, based on the case studies in this brief, may be summarised into three inter-related concerns: (1) undermining of democratic ownership, (2) impacts on human rights, and (3) impacts on the environment.

Undermining democratic ownership

The tendency of the World Bank to undermine the democratic ownership of a borrowing country through DPF, or Development Policy Lending (DPL), is apparent in both the cases of the Philippines and Indonesia. Borrowing countries were influenced by policy lending schemes to enact policies that are at odds with people's interest and climate targets. In its 2019 report, Eurodad highlighted that economic policy reforms, such as demanding caps on public sector hiring, as well as increasing the role of the private sector in countries through deregulation and other means, remain common 'prior actions' in DPF loans. The report concluded that, "DPF is a vehicle to lock in a donor-driven reform agenda in recipient countries...[t]his suggests...there is a preferred set of policy prescriptions, which serves to undermine democratic ownership of development polices."²⁵ Others have highlighted the democratic deficit whereby international financial institutions do not require borrowers to ensure democratic oversight of conditionality through

²⁵ Brunswijck, G. (2019). Flawed Conditions: The Impact of the World Bank's Conditionality on Developing Countries. Eurodad. Accessed from: <https://www.eurodad.org/flawed-conditions>

parliamentary debate and popular consultation.

Rights at risk

The implications of DPF policy prescriptions are far-reaching and dangerous. The cases of both Indonesia and the Philippines equally illustrate how policy reforms to attract private investment often entail a reversal of labor rights, including hard-won rights on gender equality in the workplace. The passage of the Rice Tariffication Law essentially disincentivized small food producers in the Philippines while the impacts of the Omnibus Law on labor rights practically erased decades of institutionalized protection for workers. The National ID system on the other hand, also a DPL-supported law in the Philippines, is feared for the current administration's propensity to use this as an instrument for further repression and surveillance of its citizens.

Environmental damages

The relaxation of environmental protection standards in Indonesia through the Omnibus Law practically paved the way and enabled other lending mechanisms to pour in support for fossil fuel development. Without strict environmental protection mechanisms, extractive industries can easily get away with environmental damages caused by natural resource extraction. Further, the exemption of businesses from royalty fees by way of developing coal-fired power stations also incentivize fossil fuel dependence, despite both the Bank and the national government's commitments to reduce emissions in line with the Paris Agreement.

V. Conclusions and Recommendations

DPFs have been widely promoted by the World Bank as a way to enact policy reforms that would attract private investments and boost domestic budgets. And while World Bank loans can fill in domestic budget gaps in the short-term, this type of financing has proven to be unsustainable and ultimately contribute to economic drains on the part of borrowing countries. Nevertheless, DPF loans have become especially attractive for borrowing countries in the context of the pandemic-induced economic crisis since 2020. As part of this, various prior actions have been imposed on Indonesia and the Philippines, focused on reforms to enhance the business environment, and expand private sector access to financing. This research shows that these prior actions are centered on big business interests and places people's rights and the environment at risk.

In its last retrospective report on DPFs in 2015, the Bank continues to recommend the extensive use of DPFs for targeted policy reforms in developing countries. The

pressure to implement these reforms, despite concerns on their impact on rights and the environment remains strong especially with the fiscal constraints caused by the Covid-19 pandemic. Other lending instruments and initiatives from the Bank also play a role in this regard, particularly the DBR and its ranking system that pushes countries like Indonesia to enact policies to create a more business-friendly environment.

As this report has shown, **DPFs in Indonesia and the Philippines are not focused on Covid response, but are instead geared towards policy reforms for greater foreign investment, deregulation of government oversight, and liberalization of key sectors of the economy.** The prior actions associated with DPF loans in the Philippines during the Covid-19 pandemic illustrate the Bank's policy choices and misguided focus on the business climate rather than focusing on increasing the capacity of national governments to respond to the greatest health crisis in history.

These DPF loans do not incorporate green recovery in the energy sector. The case of Indonesia illustrates how previous DPF loans, and other mechanisms of the World Bank such as its DBR rankings, paved the way to deregulate environmental protection mechanisms and encourage fossil fuel investment.

DPF loans work in tandem with other World Bank lending instruments that have adverse socio-economic consequences for small food producers, labor, and women's rights, while dismantling environmental protection standards. DPFs in Indonesia functioned as an enabling mechanism for other investment financing projects to prosper including fossil-fuel dependent businesses. The pressure from DBR rankings motivated the Indonesian government to implement a slew of deregulatory reforms meant to attract greater foreign investment at the expense of environmental protection. Meanwhile, DPFs in the Philippines illustrate the impacts of supporting agricultural liberalization reforms on small-scale food producers and threatens prospects toward food security.

Addressing these multi-faceted and interlinked concerns require a complete overhaul of its policies aligned with the following recommendations:

1. End policy conditionalities that prioritize private sector solutions and instead focus on incentivizing Covid-19 response including social development-focused reforms.
2. Promote democratic ownership of development results by expanding spaces for meaningful consultation with a wide range of stakeholders, including CSOs, in shaping policy reforms at the national level. Communities directly affected by projects supported by World Bank financing must be adequately consulted including acquiring consent from indigenous peoples' ancestral domains.

3. Hold the World Bank accountable to the impacts of its loan conditionalities that have resulted in human rights violations and environmental degradation in developing countries. This includes, among others, the regular release of the *Development Policy Financing Retrospective* as a means to monitor the human rights and environmental impacts of DPF loans. Genuine and robust grievance and redress mechanisms must also be put in place both at the local and international levels to ensure the highest standards of accountability and transparency.
4. End the aggressive promotion of DPFs that incentivize fossil fuel development.
5. Put human rights at the center of designing, implementing and assessing World Bank loans.

Underlying all these necessary measures and changes is the basic principle of democratic ownership in effective financing for development. This means ensuring that efforts genuinely serve the interest and welfare of the largest number of people. Only when external development financing is allocated and implemented democratically and is geared to enable governments to equitably develop their own domestic resources will it best contribute to sustainable development.

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