Oxfam Positioning and Recommendations on IDA18[1]
September 2016

We continue to believe that IDA is a critical place for donors to be putting their aid dollars. We are calling on donors to fully replenish IDA during this 18th replenishment round, at minimum matching their IDA17 contributions in local currencies. Any changes in levels of concessionality should nevertheless ensure that total *grant contributions* to IDA remain at or above IDA17 levels.

Why IDA? It is:

- One of the largest sources of concessional finance for Lower Income Countries
- One of the biggest providers of financing for core support for human development services such as health and education, key to reducing inequalities in countries.
- Despite there being fewer lower income countries, there is still a huge amount of poverty and inequality within those countries. Meeting the Sustainable Development Goals will also require concessional financing.
- There is a benefit of distributing aid through multilateral sources as the World Bank, since it is often less political and buffered from the interests of individual donor countries, and rather can focus on development priorities.
- IDA performs well on many aspects of aid effectiveness, especially country ownership over development priorities, predictability of financing, and transparency. IDA continues to be ranked highly in global rankings on aid transparency.

We urge the Bank to **commit to a strong programmatic and policy agenda for IDA that will make sure it is delivering on its mandate to end absolute poverty and promote shared prosperity.** Specifically, we want to see IDA funds being used to help countries realize the Sustainable Development Goals, target the poorest within IDA countries and reduce inequalities, boost domestic resource mobilization, and promote gender equality, all in a responsible, sustainable manner which recognizes the voice of citizens and combats climate change.

We would like to propose the following recommendations:

[1] We expect to develop/refine these positions further throughout the replenishment period.

I. IDA Allocation Formula

- The Bank's current IDA allocation formula must be revisited to make it consistent with the Bank's twin goals of reducing poverty as well as boosting shared prosperity. It must also be aligned with the SDGs.

- We welcome the proposal to reduce the Country Performance Rating (CPR) exponent from 4 to 3 to allocate more IDA resourcing for country needs as opposed to performance.

- The CPR, however is still flawed in that the "needs" portion of the formula remains based solely on population and income, whereas needs should also factor in a country's SDG gaps.

- We are disappointed to see that IDA18 is not revising the Country Poverty and Institutional Assessment (CPIA) which was one of our outstanding asks in IDA17. We believe that at a time when the Bank is still trying to adapt to the new corporate goals, and in the context of ambitious SDG goals, it would make sense to assess if the main indicators the Bank uses to allocate resources to IDA countries are indeed the most relevant. Performance should be based on looking at what actions countries are taking to fight poverty and inequality and meeting the SDGs, with a strong focus on social inclusion. For example, the Bank should consider giving more weight to the "*Social Inclusion and Equity Cluster*", which looks at country policies on gender equality, health and education, poverty reduction, and environmental sustainability, as this would provide a strong sense of a country's commitment to reducing poverty and inequality. IDA deputies should discuss these issues and commit the Bank to updating the CPIA in the IDA18 cycle to make sure it is still fit for purpose.

II. Graduation

- Because of high and growing levels of inequality, per capita incomes are an inadequate indication of whether a country continues to need concessional financing. Countries like Zambia have seen average incomes rise but in fact poverty levels increase, because of the vast majority of the proceeds of growth going to the top 10%. With the majority of the world's poorest living in middle-income countries, there is an urgent need to take more steps to delay transition from IDA because of inequality concerns, and to rethink graduation more in terms of the ability to reach the SDGs.

- We are concerned about the very real risks associated with graduating too soon, especially that graduating countries will suddenly face different terms of finance from other lenders as well – not just the World Bank – and could quickly find themselves heavily indebted, which will significantly undermine their ability to finance the SDGs. To that end, thorough transition plans where downside risks are carefully weighed are crucial.

- With respect to how graduation is managed, we agree that it should be extensive (9 years as a minimum and longer if necessary). Whilst support for greater domestic revenue mobilisation is key, this takes time, and cannot be seen to be an immediate alternative.

- We expect that it would take multiple IDA cycles for countries to mobilize their domestic resources to the degree that they would replace concessional funding. Graduation should thus be a gradual process with a mix of concessional and non-concessional finance and where the terms of lending harden gradually.

- Because graduating countries will still often have large numbers of poor people and high levels of inequality, during the transitional stage, while countries are receiving both concessional and non-concessional finance, the Bank should target concessional funds to the types of programs and policies which will most strongly fight inequality such as progressive taxation, strong decent work conditions, public education and health, etc.

III. Newly proposed private sector window

- One of the World Bank Group's added values is investing in countries that other private sector actors might deem too financially risky. This has long been part of IFC's mandate and should be a priority for IFC as a development institution regardless of the newly proposed IDA private sector window. While recognizing the importance of increasing support for private sector investment in IDA countries, Oxfam's position is that IDA funds should not be diverted away from public sector lending and that the Bank should only back private sector investments if the financing envelope is large enough to maintain current IDA funding levels for the public sector. This is especially true if IFC transfers to IDA stop.

- If the Bank will be using IDA funds to back private sector investments, we urge the Bank to ensure that pro-poor development impacts are prioritized above financial returns as investment choices are made. The Bank must acknowledge and actively mitigate the risk that market incentives could result in investments being made that have limited development impact and fail to benefit the poorest. This simply cannot be allowed when IDA funds are backing the investments, since IDA funds are specifically aimed at poverty reduction.

- As such, the Bank should have clear criteria for selecting investments that will be backed by IDA funds. Such criteria should include, for example, that the investment will benefit the poorest within countries, and promote gender equality.

- The Bank must ensure there is on-going monitoring to ensure investments have a clear pro-poor development impact. In our assessment, currently IFC systems for monitoring poverty impact at project level are not sufficiently strong to ensure this is being effectively tracked.

- In IDA countries and particularly FCS where governance is weak, the WBG must consider environmental and social risk in the same way it considers financial risk when making private sector investments so as to ensure that investments are sustainable and benefit communities rather than harm them and push them into further poverty. Social risk is especially important to consider in the context of fragile states where there is a real possibility for fueling social conflict, particularly those related to land and natural resources.

- The IFC should tread carefully when investing in private markets for essential services like education and health – these investments should not be allowed to erode or undermine public sector responsibility or capacity to provide quality services for the whole population; nor to exclude the poor from accessing related services. We have been concerned about trends in recent lending that seek to produce a mixed system of services but instead produce a stratified one that prices the poor out of accessing quality services. For example, a recent Oxfam report found that the IFC's Health in Africa initiative made investments in mainly high end urban hospitals and clinics that were highly unlikely to serve poor populations.

- We expect that financial intermediaries (FIs) will be used as part of this approach and specifically in an effort to reach small and medium sized enterprises (SMEs). We recognize the role that FIs such as private equity funds and commercial banks can play in providing access to finance for SMEs that big development institutions such as the World Bank Group could otherwise not reach. However, given that this is a form of hands-off lending, the WBG must take caution in ensuring that such lending through FIs is reaching those who need it the most, and very importantly that that financing is then being lent in a way where social and environmental risks are managed well, particularly in FCS. Too often we have seen cases where IFC financing through an FI has caused immense suffering, rather than benefit to communities, especially women.
  Due to the high potential for unmitigated harm to occur and the weak transparency and accountability associated with this type of lending, we recommend that IDA financing not be used to support or back investments in high and substantial risk FIs where it is almost impossible to track development impact due to the lack of transparency as to where those funds are going. In an effort to track development outcomes, we also propose that disclosure and strong supervision of FI sub-projects will help ensure that funds are reaching the intended beneficiaries.

- Some examples of where we think the private sector could have great added value is in places that are riskier from a financial point of view (in terms of return on investment) but have potential to really make a difference for opening up new markets that can benefit the poorest such as investments in companies producing renewable technologies that prioritize energy access for the poorest (eg. offgrid solutions) and generic medicine producers and medical technology companies in Africa.

- In order to be consistent with the Bank's proposals to enhance domestic resource mobilization, the WBG will benefit developing countries' efforts by ensuring its private sector clients are paying their fair share of taxes to those countries. As such, we recommend that the WBG update its Offshore Financial Center (OFC) policy to do more in the way of preventing aggressive tax planning and tax avoidance by its clients.

- We would also propose that IDA funds need not necessarily be used to back the private sector directly but could instead be used to reduce the barriers to private sector investment, through investing in essential public services, such as health and education, and infrastructure. The lack of public investments in these areas remains an important barrier to private sector growth in developing countries. Some other examples of how public finance can benefit the private sector:
  - Reduction of pressure to liberalise their financial sectors and privatise public banks e.g. through the World Bank / IMF Financial Sector Assessment Program.
  - Reform of investment treaties to remove clauses that limit their ability to manage international private flows
  - Major improvements to company transparency and a global tax body to stop losses of public resources through tax dodging.

IV. **Domestic Resource Mobilization**

- We very much welcome the addition of the governance theme as part of IDA18 and the Bank's proposal to strengthen domestic resource mobilization (DRM) specifically.

- We welcome the commitment to work on tax reforms that contribute to reducing income disparities and increasing shared prosperity for the bottom 40 percent through progressive tax policies. We are keen to see the Bank put more IDA financing towards such progressive tax reforms as well as to improving tax collection. Oxfam has estimated that improving tax collection in 52 developing countries could raise an additional 31.3 % in tax revenues, or $269bn[2]. Having a fair tax system in place is also essential to reach the second goal of fighting inequalities.

- Given the Bank's recognition of the need for a holistic approach to DRM, we also propose that the WBG review and update the Offshore Financial Centers (OFC) policy as part of IDA 18 commitments. Our research has shown that the current OFC policy is far from effective in fulfilling its intended task and there is a long way to go towards ensuring the WBG is not supporting clients who are avoiding taxes and using aggressive tax planning strategies.[3] As such, we are very keen to see a review or rethinking of the

[2] Itriago, D (2011), "Owning Development: Taxation to fight poverty", Intermon Oxfam: Madrid
[3] Jespersen, S (2016), "The IFC and Tax Havens", Oxfam International: UK

OFC policy to make it a fully tax-responsible one.

V. Climate

- We welcome the continued inclusion of climate as a special theme in IDA 18 given the global nature of climate change and especially the vulnerability faced by IDA countries. Almost all IDA countries' Nationally Determined Contributions (NDCs) include intentions to develop more renewable energy and we are pleased to see the WB proposing to support those efforts in IDA18. The proposal to address energy access gaps with a focus on low-carbon options and a proposal to support 5 GW of renewable energy generation is encouraging.

Energy sector

- We are concerned that the Bank will prioritize large, high-risk, on-grid energy infrastructure projects in order to meet this goal. While those types of investments will be needed to meet the energy access gaps, we urge the Bank to consider the following:

- A fundamental question that must be addressed if we are prioritizing access, is the challenge of how to efficiently and effectively reach those 1.1 billion people who lack electricity. In order to distribute quality, reliable electricity to the poor, we believe the Bank must invest significantly more in off-grid investments to match the specific on-grid and off-grid integrated approach of each country. At a global level, IEA estimates that at least 64% of energy investments should be off-grid. While it is country specific, energy financing should reflect the appropriate on-grid / off-grid split rather than assume that prioritizing on-grid will meet all access needs.
- Ensuring communities benefit should be a primary goal of energy financing. Energy access should not be seen as a co-benefit. Co-benefits should also be supported (E.g.: improvement of agricultural production, job creation, health, etc.).
- The environmental and social risks that often come with many large-scale infrastructure projects (E.g.: large hydropower, natural gas) can outweigh the benefits, especially with respect to communities' land rights and their access to productive resources. Crucially in IDA countries, the Bank must ensure the strongest of standards and proper implementation of safeguards and mitigation measures. Not one individual should be left further impoverished as a result of an IDA-financed project and while this should be a given, we recommend that this commitment be embedded in the IDA 18 paper.
- Free, prior and informed consent of indigenous peoples and local communities is essential for developing sustainable energy projects that will benefit the community in which they are built. In addition, for any large-scale energy project, we propose that the Bank use third party monitoring to ensure that communities benefit from the projects as well as ensure no harm is done to communities.

- In addition to these renewable investments, the Bank should also commit to closing the loopholes on damaging and unsustainable fossil fuel financing in IDA countries that is inconsistent with the Paris Agreement, as well as broader development goals. This would mean reviewing the WBG's entire portfolio including Development Policy Loans/Grants, Technical Assistance, Advisory services and importantly Financial Intermediary lending.

Climate- proofing IDA portfolio (infrastructure and other sectors)

- We welcome the commitment to screen operations for climate risk and mainstream climate risk into program design. This should result in the introduction of climate-proofing actions at implementation stage. This is likely to have budget implications that should also be integrated into program design as standard practice. Climate-proofing is not an extra, or an option for which additional costs should be covered by external climate funds (from bilateral donors or international funds such as GEF, CIF-PPCR or GCF) but assumed as part of the WBG good-practice and responsible investment.

Greenhouse gas accounting

- We welcome the moves that the Bank is taking to increase GHG accounting to other sectors, and recommend that the Bank adopts a GHG reporting threshold of 25,000 tons. This is essential to be consistent with the Paris Agreement in "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development[4]".

- To be truly consistent with low-carbon emissions, it needs to include full lifecycle assessments in the accounting, not be limited to "where technically and financially feasible", and applied to all Bank lending instruments.

Low-carbon pathways have potential development co-benefits to be tapped

- Numerous LICs have included mitigation opportunities in their NDCs and will need support to implement them. It is positive that IDA18 seeks to respond to the financial support need and to unveil low-carbon potential in LIC economies.

- For low-carbon operations to really deliver in terms of potential co-benefits (health improvements, energy access, job creation, improvement of agricultural productivity, water access, etc.), there needs to be policy/institutional frameworks to favor those virtuous circles.

- The WGB could contribute to this by introducing support tools and measuring the actual development impact of low-carbon investments. Development indicators that can capture potential co-benefits delivered and full environmental and social externalities, need to be designed and integrated in the monitoring and evaluation systems of low-carbon operations and in the decision making processes.

[4] See Article 2(c) of COP21/CMP agreement

VI. Gender

The same forces that drive economic inequality – including the capture of power and politics by elites and economic policies that reduce public investment in social services – are also undermining greater gender inequality. By addressing these, through accountable and democratic institutions, decent work, progressive taxation and universal public services, we can win the twin struggles against gender and economic inequalities.

We are pleased to see the Bank's proposal to target the remaining gender gaps in human endowments and as such will focus this section on health and education.

Ensure IDA funding addresses the structural causes of women's economic inequality

- The WBG's gender strategy focuses on enabling women to increase their economic participation and for there to be 'better' jobs available to women. The strategy must be implemented in a way which recognizes the structural barriers to women accessing better work opportunities, including violence against women in the home, public spaces and workplaces, heavy and unequal responsibilities for unpaid care work, social norms and lower agency and decision making power. Programs must holistically address these barriers to be successful, interventions which cover one or two areas only will not be effective. Programs must also acknowledge the supply side of 'better' jobs requires the creation of decent work opportunities, and increased labor power and bargaining rights particularly for women. These will ensure that work opportunities support gender equality and economic growth, as well as greater gender equality supporting development.

- We welcome the acknowledgement that the WBG is well placed to address areas essential to reducing women's economic inequality including infrastructure, agriculture and financial service delivery. These projects, if designed with strong gender analysis can reduce and redistribute inequalities in unpaid care work responsibilities and transform markets to empower rather than exclude women. However research has shown that currently a small percentage of WBG projects have an explicit, articulated focus on gender equality outcomes or are tracking their impact in this area.[5] Delivering transformative change towards gender equality through these sectors requires gender analysis be integrated into their design, implementation and evaluation, and for organizations which represent the interests of women to be meaningfully included in consultation processes.

[5] C. Kenny and M. O'Donnell (2016) Do the Results Match the Rhetoric? An Examination of World Bank Gender Projects, Centre for Global Development - http://www.cgdev.org/publication/do-results-match-rhetoric-examination-world-bank-gender-projects

Ensure IDA funding for education and health promotes gender equity

Education

- The World Bank is one of the largest external financiers of education in the developing world, and directs a large majority of IDA funding for education to strengthening public education systems. The Bank's financial and technical support was a key driver of progress on the education Millennium Development Goals (MDGs), in particular the abolition of school fees in many developing countries, which contributed to strong improvements in gender parity at the primary level.

- We welcome the proposal that all applicable IDA18 financing operations for primary and secondary education will address gender-based disparities. As part of this, a renewed focus should be placed on supporting countries to abolish school fees in both primary and secondary education, as school fees are known to be a major barrier to girls' access to education in many countries.

- However, the World Bank Group actively encourages a greater role for the private sector, including for-profit private schools or low-fee private schools, in basic and secondary education. This is of deep concern to Oxfam because of evidence that low-fee schools usually do not reach the poorest, in particular exclude girls,[6] and rely on poorly qualified teachers and standardized lessons resulting in questionable quality. The UN Human Rights Council, Committee on the Rights of the Child, and the UN Committee on Economic, Social and Cultural Rights have produced several recent rulings raising concerns about this approach.

- Over the period 2008-12, the World Bank used IDA funds for projects with components of direct support for private provision in seven countries: Bangladesh, Haiti, Indonesia, Nepal, Pakistan, India, and Uganda. At least four of these include a component of public support to low-fee private schools. While small, IDA support for private provision may be growing, as suggested by recent investments, including a newly approved operation in Burkina Faso. The IFC also invests in fee-charging for-profit school chains at the basic and secondary level, including Bridge International Academies which operates in Kenya, Uganda and Nigeria. Political and policy support for privatization and low-fee private schools from the World Bank is also significant.

Health

- We welcome the proposal that all IDA18 financing operations for maternal and reproductive health will improve the availability and affordability of such services.

[6] Studies have found girls' disadvantage in access to private schools in Pakistan, India, Kenya and Nepal including Bhatta, P. (2014); Härmä (2011); Pal and Kingdon (2010); Sahoo, S. (2015); Aslam (2009); Nishimura and Yamano (2013)

- The Bank is one of the biggest donors to the health sector, and has substantial expertise in health systems strengthening. Its recent research, policy work and leadership in support of Universal Health Coverage has made a positive contribution to the push for greater public financing for health and improved financial protection and access to quality health care in developing countries.

- In some countries, the Bank's lending has supported removing out-of-pocket fees for health care in public facilities, to support access for women and children to health services (such as in Sierra Leone and Nigeria). However this approach has been inadequately emphasized and should be expanded and made a more explicit policy focus. There is now a relatively strong consensus in the health community based on substantial evidence that health care user fees block access to care for the poorest women and children.

- President Kim's historic statements reversing decades of WB policy on user fees and cost recovery in health care must be better socialized within the Bank and translated into more comprehensive policy advice and funding for countries - especially because of the negative impact of user fees on women's access to care. The Bank sometimes favors more fragmented insurance-based approaches that cover portions of the population (such as the formal sector while targeting the poor) but allow too many to slip through the cracks in the short- and medium-term (such as shown in Oxfam research on India and Ghana). IFC has also invested in for-profit clinics and hospitals in Africa through the Health in Africa initiative, while failing to track whether these investments benefit women or the poor.

- The Global Financing Facility for Every Woman, Every Child is a World Bank-managed funding vehicle that could prioritize support for health care that is free at the point-of-use for women and children, in response to the demand from many countries especially in Africa who have removed fees for these populations - it has not currently defined this as a priority approach.

The World Bank should:

- Focus IDA investments on strengthening public education and health provision, which are more likely to serve the poorest women and girls. This means financial and technical support for removing user fees, while working to improve quality, equity and social accountability in public schools and health facilities.

- Track the impact of IDA support for private schools on gender equity, social inclusion, and wider impacts on the education system.

- Given the proposal for a portion of IDA funds to back private sector investments, and our research which has demonstrated that for-profit schools, and hospitals and health facilities that rely on fees exclude the poorest women and girls, we propose that IDA funds not be used to back those types of private sector investments.

- Integrate gender equality aims into the design, implementation and evaluation phases of all projects and consult with organizations which represent women's interests.

- Ensure projects aimed at increasing women's access to better work opportunities address holistically the causes of women's economic inequality and the creation of decent work opportunities for women is also prioritized.