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DFID and the World Bank

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International Development Committee

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Footnotes

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Summary

The World Bank is a vital component in the international development system. The Bank is a major provider of development funding, analysis and advice. Its lead is often followed by other donors and agencies. Given its profile, the Bank comes under considerable scrutiny from civil society, opinion formers and commentators. Not all of their views are constructive: some organisations seem to have an instinctively hostile attitude to the Bank which is not always founded on evidence. In our view, such unsubstantiated criticism simply damages the public perception of development assistance more broadly.

The Bank is not perfect, however, and the context in which it operates continues to change. As a major shareholder and contributor to the World Bank, the UK has a distinct leadership role. The UK should not only articulate a vision for reform of the World Bank, it must pursue this with vigour.

The Department for International Development's overall objective is the eradication of poverty and attainment of the Millennium Development Goals. All the channels it uses for its funding must support this objective. The Bank's core mandate is related to poverty reduction. This makes it a natural partner for DFID, and the consistent and steep increases in DFID's funding to the Bank reflect this. This places an increased responsibility on DFID to ensure that the Bank is not only organisationally effective but that it is achieving a level of development impact that justifies these sums. We therefore strongly believe that more consistent and transparent use of impact assessments by the World Bank across all of its lending is the single most important change in Bank practice that DFID should be pursuing.

Adequate representation of developing countries in World Bank decision-making is not only a question of fairness, it is one of effectiveness: greater ownership by developing countries will lead to more effective Bank programmes. The UK has been better at setting out this argument than at developing a solution to the problem. Securing any reform of the World Bank's voting arrangements will be difficult. But practical and immediate changes which can help to rebalance the Bank's Board to give developing countries a greater voice, especially in Africa, are achievable and should be prioritised.

There are no short-cuts in development. While the Bank has improved its record on attaching policy reform conditions to its lending, further improvements could be made to ensure developing country ownership of their own development. World Bank diktat is no substitute for thorough debate and engagement of stakeholders and especially national parliaments by the borrower country government. Only the latter will achieve a resilient development programme with broad domestic support.

Selection of the President of the World Bank, one of the most influential figures in international development, should be transparent and on merit, rather than in the gift of the United States. Progress on this will require giving up Europe's monopoly on the post of Managing Director of the IMF. The UK should initiate work now towards achieving such a 'grand bargain'.

The Millennium Development Goals will never be achieved if women's empowerment is

not central to development efforts. The Bank's action plan on gender, launched last year, was overdue. It now offers scope to hold the Bank to account across the range of its activities. Similarly, the Bank's enhanced focus on: country-level effectiveness; redeployment of staff into the field; and fragile states, is to be welcomed. Development will not succeed through lending alone. We support the Bank's efforts to ensure that it provides intellectual added value to its lending. The Bank's analysis can have significant influence. DFID must, therefore, ensure that the Bank's knowledge is credible and neutral in the way it is both created and shared.

DFID should reassess its staffing arrangements and analytical capacity in relation to the Bank's work to ensure that it can carry out satisfactory oversight of the Bank. It should take up all adviser slots available to it in Washington. When we were in Washington we questioned the UK's decision not to appoint a full-time Executive Director to the World Bank and were not convinced by the UK officials' robust defence of the practice of appointing a single civil servant as the UK's senior permanent representative to both the World Bank and the IMF. We were therefore pleased at the Government's change of heart and we are glad that the new UK Executive Director of the World Bank will be a DFID appointment.

On current trends, UK funding for Bank-managed Trust Funds will soon match UK core funding for the Bank. There are already more than 900 such Funds. Any further proliferation of Funds could distract World Bank shareholders from the task of reforming its main institutions. DFID should accept the creation of further Funds only as a last resort.

Parliaments have a central role in overseeing government expenditure of national budgets, including money channelled through the Bank. It follows that the Bank should make itself available to provide formal evidence directly to parliaments in donor and developing countries to complement that provided by governments.

Climate change is a particularly acute challenge for developing countries. Funding for climate change work must be both increased and streamlined. The World Bank has a role to play in achieving both these objectives. As a development leader, the Bank should use its substantial resources and leverage to support viable renewable energy sources. But the urgency of climate change does not lessen the blight of poverty and we believe that the Bank's primary focus must remain on poverty reduction and development.

1 Introduction

1. Reform of international institutions has emerged as a priority for the Government under Rt Hon Gordon Brown MP, the Prime Minister. In his first Mansion House speech as Prime Minister, and again in a speech in India on 21 January 2008, the Prime Minister spoke of the need to renew global institutions which had been created in and for a different era.[1] His aims for this "new world order" were:

> "To create a new International Monetary Fund for the modern world, to create a new World Bank that can meet the environmental challenges as well as the development challenges, to create a new United Nations that can meet the challenges of rebuilding where there are conflicts and where there are fragile states in need of international assistance and support."[2]

2. The Department for International Development (DFID) is channelling an increasing amount of its budget through multilateral institutions. The Organisation for Economic Co-operation and Development (OECD) said in December 2007 that the UK's overall aid figures rose by 11.7% in 2006 "due to a substantial increase in contributions to international organisations".[3] These multilaterals, including the European Commission, United Nations agencies and the World Bank, now receive over 40% of DFID's total budget.[4] Against a backdrop of a sharply rising DFID budget and of efficiency targets in the civil service, the total figure for British multilateral spending on development has risen from around £1.3 billion a year in 2001–02 to over £2 billion a year in 2006-07 and looks set to continue to rise. In the debate on international development on 15 November 2007, Rt Hon Douglas Alexander MP, the Secretary of State for International Development, said:

> "The approach […] that I want DFID to take more broadly with the […] multilateral institutions within the international system [… is that,] given that we have resources to deploy following the generous comprehensive spending review settlement that we have achieved, we should try to provide generous finance. […] However, as well as providing extra resources, we should aim to exert more influence over the policy choices made by institutions."[5]

Parliament and the taxpayer need to be satisfied that DFID is indeed exerting that influence and confident that this money is being well-spent. The UK contribution to the World Bank in particular has doubled in the last two financial years and looks set to continue to rise. In the summer of 2007, we decided therefore to examine the relationship and alignment of priorities between DFID and the World Bank.

3. The Bretton Woods Institutions—the World Bank, the International Monetary Fund (IMF), and an institution that would later become the World Trade Organisation—were

1 Speeches by the Prime Minister, Rt Hon Gordon Brown MP, at the Lord Mayor's Banquet, London, 12 November 2007, and at the Chamber of Commerce, Delhi, 21 January 2008 (pm.gov.uk)

2 Speech by the Prime Minister, Rt Hon Gordon Brown MP, at the Chamber of Commerce, Delhi, 21 January 2008 (pm.gov.uk)

3 OECD, *Final ODA Flows in 2006*, December 2007, paragraph 11 (www.oecd.org)

4 DFID, *Statistics on International Development 2002/03–2006/07*, 2007, p 10

5 HC Deb, 15 Nov 2007, col 876

set up at a meeting of 43 countries in Bretton Woods, New Hampshire, USA in July 1944. Their aims were to help rebuild shattered post-war economies and to promote international economic cooperation. The main purposes of the Bank in particular, as outlined in Article One of its Articles of Agreement, are: "to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes"; “to promote private foreign investment”; and "to promote the long-range balanced growth of international trade... thereby assisting in raising the productivity, the standard of living and conditions of labour in their territories".[6]

4. Both the World Bank itself and the context in which it operates have changed in the decades since its foundation. The primary focus of the Bank has moved from predominantly European post-war economies to the developing world. This evolution means that, in our view, the World Bank remains a highly relevant institution and DFID is right to support it. The Bank is today the largest development institution in the world. In many countries, it provides the lead which is followed by other development agencies. It is an important source of knowledge, analysis and advice on how to tackle global issues. As such it has an impact not just directly through the projects and programmes in which it is involved but also more broadly through an influence it exerts over the development system itself. Baroness Vadera, the then Parliamentary Under-Secretary of State at DFID, said in her evidence:

> “We believe the Bank is one of the most effective ways we can spend some of our funding. In many senses it is the glue in the system of development. It is an institution that has the ability to do certain things that other institutions do not—heavy lifting around health systems and education systems and working with governments. It has a geographical spread which nobody else can quite match. […] And the role that it plays in terms of global public goods and all of those factors are very important. It is considered—and we considered and evaluated it—to be an effective organisation.”[7]

5. Given its profile, the Bank comes under considerable scrutiny from civil society, opinion formers and commentators. Not all of their views are constructive: some organisations seem to have an instinctively hostile attitude to the Bank which is not always founded on evidence. In our view, such unsubstantiated criticism of the World Bank simply damages the public perception of development assistance more broadly. This Report will use the range of evidence we have gathered to examine the relationship between DFID and the World Bank, and through this to assess whether this institution is adapted to today’s challenges and capable of achieving the development outcomes necessary if poverty is to be eradicated.

Structure of the Report

6. In chapters 2–5 of this Report, we focus on the key questions for DFID’s relationship with the World Bank today and in the short-to-medium term. These are fundamental issues about the alignment of priorities between the two organisations, the Bank’s

6 World Bank, IBRD Articles of Agreement: Article I

7 Q 141

effectiveness and issues of reform and influence. In chapter 6, we reflect on the Prime Minister's statement about the need for a "new World Bank" and look ahead to what such a Bank might look like, what its focus should be and how some of its work might be financed.

Evidence and acknowledgements

7. We held three evidence sessions in this inquiry. We took oral evidence from One World Trust, Bretton Woods Project, European Network on Debt and Development (EURODAD), Rainforest Foundation UK, WWF UK, Christian Aid, International Alert, ActionAid UK, CARE International and the Department for International Development (DFID). We received written evidence from 26 organisations and individuals.

8. In November 2007 we visited Washington DC for discussions with World Bank President Robert Zoellick and other senior World Bank staff. A summary record of some of these meetings is published as Annex 1 to this Report. We also met the Managing Director of the International Monetary Fund (IMF), Dominique Strauss Khan, representatives of donor and borrower country delegations to the Bank, think-tanks, and US officials. The programme is set out as Annex 2 to this Report.

9. We are grateful to the UK Delegation to the World Bank/IMF and to the British Embassy in Washington for facilitating a full and tailored programme. We would also like to express our thanks to all those who provided us with information, formally or informally, to assist us with this inquiry.

2 DFID and the World Bank today

World Bank Institutions

10. The World Bank Group is made up of five institutions, all sharing a similar mandate of reducing poverty and facilitating economic growth in developing countries. The original institution is the International Bank for Reconstruction and Development (IBRD), often known simply as the World Bank.[8] Other institutions have been added: the International Development Association (IDA); the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for the Settlement of Investment Disputes (ICSID).

11. The World Bank mainly lends to governments, although IFC also provides direct support to private businesses and to non-profit organisations. Middle-income countries and some poorer 'creditworthy' countries borrow from the IBRD. IDA is the part of the World Bank that focuses on the world's poorest countries, is the Bank institution for which DFID provides substantial direct funding and, as such, is the main focus of this inquiry.[9] IDA aims to reduce poverty by providing interest-free loans and grants (known as 'concessional lending')[10] for programmes to "boost economic growth, reduce inequalities and improve people's living conditions".[11]

12. Although separate institutions, the arms of the Bank do not, in theory, work wholly independently of one another. The IDA is, for example, part-funded by IBRD and IFC capital and interest payments. Moreover, the Bank institutions work in collaboration under the general administration of the Board of Governors (ministers) and the Boards of Directors (officials) and under the leadership of the World Bank President, currently former US Trade Representative Robert Zoellick.

UK contribution to the International Development Association

13. The negotiations for the latest replenishment of the International Development Association fund (IDA 15), the arm of the World Bank which provides interest free loans and grants to low-income countries, were completed in December 2007.[12] On 14 December, the Bank announced that a total of $41.6 billion had been committed to IDA 15, 30% higher than the previous IDA replenishment (IDA 14) of $32.1 billion.[13] Bilateral donors had committed some $25 billion of this total, with the rest coming from income from loan repayments or other World Bank institutions.

8 In this Report the terms 'the World Bank' and 'the Bank' refer to the World Bank Group institutions and not just the IBRD.

9 DFID also provides funding to the World Bank Trust Funds. See chapter 4 for discussion of Trust Funds.

10 IDA funds are provided either as a loan (known as a credit) or a grant. A standard IDA credit is provided with a 40 year maturity, with a 10 year grace period and a service charge of 0.75%. As a result the grant element of a standard IDA credit is about 65-70%. IDA also provides grants to some countries: approximately 20% of IDA funds in financial year 2006 were provided in the form of grants.

11 "IDA: A fund to improve the lives of the earth's poorest people", World Bank website (www.worldbank.org)

12 IDA 15 will cover the period from July 2008 to June 2011.

13 "IDA Replenishments", World Bank website (www.worldbank.org)

14. On 17 December, the Secretary of State said in a Written Statement on IDA 15 that "the UK intends to make a contribution of £2134 million […]. This is the largest single contribution the UK has made to the World Bank. It represents a 49% increase over the UK's commitment of £1430 million to IDA 14."[14] This substantially increased commitment makes the UK the largest bilateral donor to IDA.[15] It is part of a trend in substantial increases to IDA, building as it does on the 43% increase in DFID's contribution to IDA 14.[16]

15. During the inquiry, we were keen to establish the processes behind the decision to allocate £2.1 billion to IDA 15. When we questioned the Minister about the allocation, she said:

> "We looked at the [Comprehensive Spending Review] settlement that we had. […] We had certain other replenishments coming through at the same time—the African Development Fund and the Global Fund to fight AIDS, TB and Malaria—and we took a view overall in terms of the increase for a number of reasons. […] The proportion of DFID's DEL [budget] that is going to IDA is going to stay roughly the same as it is now. So, proportionately, it has not increased".[17]

The Minister went on to refer to two important factors in the allocation decision: DFID's assessment of the World Bank's effectiveness; and concessions obtained by the UK in the IDA negotiations.[18]

World Bank effectiveness

16. In 2004, DFID established the Multilateral Effectiveness Framework (MEFF) for assessing the way multilateral organisations work. 23 international organisations were assessed, including five Multilateral Development Banks, 12 UN organisations, five humanitarian agencies and the European Commission. DFID was also assessed. The assessments were conducted by DFID officials in consultation with the organisations themselves. The MEFF focused on organisational effectiveness in terms of the systems that organisations needed to have in place to produce results, rather than on the results themselves. Under this assessment, the World Bank was the highest performing multilateral development bank but was out-performed by the UN Development Programme, the UN Population Fund, the Office of the UN High Commissioner for Refugees, and the International Committee of the Red Cross.[19]

17. In 2007, DFID published 14 Multilateral Development Effectiveness Summaries (MDES). The MDES provide information about how multilaterals perform across four key dimensions of effectiveness: managing resources, managing relationships, country/global

14 HC Deb, 17 December 2007, cols 96–97WS

15 This is also partly due to the strength of the pound's exchange rate to the US dollar, IDA's working currency.

16 DFID, *Statistics on International Development 2001/02–2005/06*, 2006

17 Q 141; Public expenditure is divided between Departmental Expenditure Limit (DEL) spending, which is planned and controlled on a three year basis in Spending Reviews, and Annually Managed Expenditure (AME), which is expenditure which cannot reasonably be subject to firm, multi-year limits in the same way as DEL, such as social security benefits, local authority self-financed expenditure, debt interest, and payments to EU institutions.

18 Qq 141–144

19 www.dfid.gov.uk/pubs/files/meff-results.pdf

results and building for the future.[20] This information is organised in the form of a "balanced scorecard", giving a narrative account of how organisations are performing and their strengths and weaknesses. This time, DFID did not present a comparative assessment of these organisations.

18. Echoing the Secretary of State's press statement on 14 December that "the World Bank is the most effective multilateral development institution", the Minister told us:[21]

> "We do have a system of surveying the effectiveness of multilateral institutions […] we have published that and the World Bank ranks the highest, if not amongst the first or second highest, and that is very important to us."[22]

Given the centrality of the effectiveness assessment to DFID's decision to allocate an extra £700 million to IDA 15, it is crucial that it is a robust framework. In our evidence session on 20 November, Bretton Woods Project questioned the metrics used in the effectiveness assessments:

> "Of course, any institution can be very effective at doing what you do not want it to do. So, I think, very often when you hear critiques from civil society about the actions of the World Bank it is not that it is not effective in these fairly technocratic senses, it is that there is a feeling that the Bank is not doing what civil society would like it to do."[23]

19. DFID's website says that the MDES's main limitation is that "while the summaries include a number of indicators relating to how multilaterals monitor and evaluate their results on the ground, they are not intended to measure actual development impact".[24] Measuring such impacts can be challenging, given that there is little information available and the impact of individual organisations can be difficult to disaggregate. We were encouraged to hear during our visit to Washington about the drive within the World Bank to improve its performance here—to monitor and analyse results better and to make public this work. One World Trust told us that DFID should also be working harder to assess World Bank progress against targets.[25] Jeff Powell from Bretton Woods Project said in his evidence to us:

> "Last year's annual review of development effectiveness conducted by the Bank's evaluation unit said that the Bank had been reasonably effective at getting countries on a growth path, but that it had not been as effective as it should be at understanding the distributional impacts of that growth path—so, in other words, understanding whether or not that growth path was actually helping the poor."[26]

20 www.dfid.gov.uk/aboutdfid/DFIDwork/multilateral-eff-faq.asp

21 "UK to give record level of support to fight global poverty", DFID Press Release, 14 December 2007

22 Q 143

23 Q 2

24 www.dfid.gov.uk/news/files/assess-multilateral-effectiveness.asp

25 Ev 97

26 Q 3 [Mr Powell]

20. DFID's new Public Service Agreement, published in October 2007, contains "key actions" on improving the World Bank's effectiveness.[27] These key actions look at 'effectiveness' in terms of high-level strategy and include working to "agree a clear strategy that sets out how the Bank can most effectively help the international community deliver the MDGs" and to "press the World Bank to achieve its own targets to strengthen the number, size, quality and authority of its country offices, especially in Africa".[28]

21. The Minister said in her evidence to us that, as well as an organisational effectiveness assessment of the Bank, DFID had also made an assessment of the Bank's effectiveness "in terms of what it does":

> "We felt and assessed that it achieves for us—it is the institution that is most effective […] in achieving what we want it to achieve, which is to be this glue in the system".[29]

DFID did not share this second assessment with us during the course of this inquiry.

22. **An effective World Bank is a vital component in the international development system and we welcome DFID's focus on its effectiveness. We note, however, that effectiveness can be assessed at many levels, including organisational, development impact and strategic. We therefore caution the Secretary of State and his team against making bold statements that the World Bank is the most effective multilateral development institution without appropriate qualification. It will only be truly effective from DFID's point of view if it does what DFID wants it to do—if it is operationally effective as well as organisationally effective. In our view, DFID should concentrate its efforts on assessing the Bank's operational effectiveness in terms of development impact, rather than just its organisational effectiveness, in order to justify the large increases in its funding to the World Bank. We were encouraged to learn about the drive within the World Bank to monitor and analyse results and to make public this work. We would urge the Bank to make this work a priority.**

IDA negotiations

23. The negotiations on the latest replenishment of IDA began in March 2007. Five high-level negotiating meetings were convened, at the last of which, in Berlin in December 2007, an overall deal was agreed. Details of the agreement and the negotiations will be published in spring 2008 in a World Bank 'Deputies' Report'. Referring to the negotiations, the Minister told us:

> "We made clear our objectives beforehand around decentralisation, fragile states, the climate change agenda as some of the top priorities of what we wished to secure from the Bank, and that was made clear ahead of any decision and indeed any discussions. We then had a series of discussions over the period in the negotiations for the replenishment and there will be the Deputies' Report that will be published that will show what actually has been agreed by the Bank in response to those."[30]

27 PSA Delivery Agreement 29, paragraphs 3.14–3.15 (www.hm-treasury.gov.uk)

28 *Ibid.*

29 Q 152 [Baroness Vadera]

30 Q 144

We await publication of the final Deputies' Report which is likely to be within days of our own Report. From our reading of the chairman's summaries of the negotiation meetings, it appears that the UK has influenced the agenda and IDA priorities to some degree.[31] The importance of a coherent strategy for dealing with fragile states is a clear theme throughout the negotiations and decentralisation and climate change emerge as priorities towards the end of the negotiating cycle. The particular needs of Africa appear to have featured in the negotiations and we hope to see this more clearly and in greater detail in the final Deputies' Report.

24. There are however concerns about the transparency of the allocation process and about the DFID analysis which underpins it. In response to the announcement on the UK contribution to IDA 15, a statement from Bretton Woods Project said:

> "Commitments [in DFID's 2004 Institutional Strategy Paper] to review and make public DFID assessments of the Bank's progress against selected indicators have been left unfulfilled. [DFID's latest report on the UK and the World Bank] says only that there is a "plan to develop a new strategy in 2008 based on a review of the current strategy". This means that the agreement to provide the Bank with over £2 billion in funding was done without a publicly-disclosed review."[32]

25. **We welcome DFID's decision to increase its contribution to the World Bank's International Development Association but we believe that it did so with insufficient rigour. In developing its strategic approach to the funding levels, it is right that during the negotiations DFID assessed both the Bank's effectiveness and its responsiveness to DFID's own priorities for the Bank. We look forward to examining the Deputies' Report for evidence of DFID's influence on the negotiations. An explanation of the strategic approach is not, however, the same as an explanation of the mechanics of the decision itself. The Minister's assertion that a 49% increase in the commitment was in line with the increase in DFID's overall budget appears to suggest that the increase was largely mechanical. Without a transparent account of how the increase was decided, we have no evidence to challenge that suggestion. We would have liked to have seen a robust analysis showing that an additional £700 million allocated to IDA would do more to meet DFID's objectives than using the same amount of money for funding another multilateral agency or for bilateral development work. We recommend that DFID publish, alongside the Deputies' Report in spring 2008, a full account of how the increase of £700 million was calculated. Given the very large sums involved, we further recommend that DFID ensure that, as well as conducting a new assessment of the Bank's organisational effectiveness, a full review of the World Bank's development impact is conducted and published before the next IDA replenishment round is launched.**

31 "IDA Replenishments", World Bank website (www.worldbank.org)

32 "UK report on its activities at the World Bank: Weak, unaccountable, and late" Bretton Woods Project Press Release, 14 December 2007

3 Alignment of policy priorities

26. DFID's policy priorities are focused on poverty eradication and attainment of the UN Millennium Development Goals (MDGs). In its evidence to our inquiry, DFID noted that "investing substantially in the Bank has a high return in terms of helping developing countries meet the MDGs."[33] In contrast, however, some of the written evidence we received in this inquiry questions the Bank's commitment to the MDGs. Diana Conyers of the Institute of Development Studies at the University of Sussex says:

> "Channelling increased amounts of funding through the World Bank will hamper DFID's efforts to […] assist in achieving the Millennium Development Goals. […] The Bank is not sufficiently committed to reducing poverty and inequality […]. The extent of [the Bank's commitment to these priorities] is constrained by two factors:
>
> - As a bank, its main role is to lend money and it has to operate on a commercial basis; […]
> - It remains committed to 'neo-liberal' policies, such as privatisation and free trade, which in many countries have had a negative impact on poverty and, in particular, inequality."[34]

27. The Rainforest Foundation UK said that, in the case of the World Bank's involvement in the forestry sector in the Democratic Republic of Congo, "Bank actions have potentially seriously hindered progress towards achievement of the MDGs, particularly Goals 1, the eradication of extreme poverty and hunger, and 7, ensuring environmental sustainability."[35] UNISON's evidence also asserts that some World Bank policies actually work against some DFID priorities: "DFID funds a World Bank agency called the 'Public Private Infrastructure Advisory Facility'. Despite its name, it is being used in Malawi to actively promote a pro-privatisation agenda in the water utility sector."[36] UNISON suggests that this undermines DFID's own Country Assistance Programme for Malawi: "DFID's own significant efforts to support the development of services providing essential basic needs to the poor majority in Malawi are being undermined by the policies and practice of the World Bank."[37]

28. We received the evidence cited by these organisations in support of their claims about the alignment of DFID and World Bank priorities. While we are not in a position to endorse their claims, we decided that it was important to look at what safeguards were and should be in place in order to ensure and demonstrate a convergence of Bank and DFID priorities.

33 Ev 53

34 Ev 85

35 Ev 102

36 Ev 128

37 Ev 127

Impact assessments

29. We received written evidence linking impact assessments to a focus on reducing poverty and the MDGs. According to the Bank's own guidelines, Poverty and Social Impact Analysis (PSIA) should be done at an early stage of relevant projects and programmes to look at the impact of policy reforms on the relative wealth of different groups in society but especially on poor people:

> "PSIA identifies potential winners and losers of a policy reform. This helps policy-makers to make decisions about the design, sequencing, timing and appropriateness of proposed reforms, and to better define compensatory and complementary measures where appropriate. A public debate about reforms can help identify the most appropriate policy combination to promote growth and reduce poverty."[38]

President Zoellick told the Committee that such analysis was done for all development projects but only on a case-by-case basis for investment projects, which have a longer-term focus.[39]

30. Evidence from Oxfam GB says that the current practice in the World Bank on PSIAs is not sufficiently systematic nor country-led:

> "the process as currently carried out is not properly embedded in the client country's own planning processes, and […] there is no systematic approach to the selection of reforms for PSIA. […] We also believe that the UK should push the Bank to present a comprehensive strategy to ensure that country-led PSIA is included in the design of, and carried out prior to, *all* key structural and economic reforms or projects with a significant distributional impact."[40]

We heard similar views from the Bretton Woods Project who noted that the use of PSIA continued to be a concern and asked:

> "Will President Zoellick ensure that impact assessment becomes an integral part of what the Bank does? […] To me, it is the key link with the MDG question: Are we really using development finance to help us reach these internationally agreed goals or are we simply putting things somewhat blind into various projects and proposals which come from our country staff?"[41]

Simon Counsell of Rainforest Foundation UK told us that, because PSIAs were undertaken only selectively, "significant parts of Bank lending […] completely bypass all of the safeguard procedures".[42] As well as concerns about the systematic use of PSIAs, Christian Aid also raised concerns about the scope of these analyses:

38 World Bank, *Good Practice Note: PSIAs (Consultation Draft)*, December 2007, paragraph 3

39 The Bank has two basic types of lending instruments: investment loans and development policy loans. Investment loans have a long-term focus (five to 10 years), and finance goods, works and services in support of economic and social development projects in a broad range of sectors. Development policy loans have a shorter-term focus (one to three years), and provide financing to support policy and institutional reforms.

40 Ev 98

41 Q 55

42 Q 85 [Mr Counsell]

> "There is plenty of evidence from the Bank's own reviews that [PSIAs] are not always conducted, and when they are they do not consider the range of available options. A poverty and social impact assessment [is done] on one option, when probably they should be considering a range of options […]. There are some very good examples of where […] there are poverty and social impact assessments done about the potential for private sector participation, but not public community sector participation, for instance, which might offer other co-benefits."[43]

31. We were told that problems around PSIAs were not simply a question of strategy but also of the Bank's resources and systems. In its evidence, WaterAid stressed the need for the UK Government to push for greater capacity within the Bank to undertake these analyses.[44] Bretton Woods Project claimed that there was a "lack of incentives for Bank staff to deliver proper PSIA".[45]

32. In a 2005 policy paper, the Government said that it was committed to pressing for systematic and rigorous use of impact assessments in policy-design:

> "The World Bank and IMF have agreed to increase the use of PSIA […]. Progress is being made, but considerably more needs to be done to increase the number and to improve the quality of PSIAs, to promote their ownership by country governments, and to ensure that the results of the PSIA are used effectively in the policy process."[46]

DFID's 2007 report on the UK and the World Bank makes no mention of PSIA, although during the evidence session with DFID it appeared that this was an oversight.[47] In her evidence to the inquiry, the Minister said that, as well as "mainstreaming" PSIA, the Bank needed to integrate this analysis with borrower country systems more actively:

> "What I think is an interesting step to take is ensuring that the PSIAs are done not just by the Bank but they are done by the country, that they are involved, and there is capacity in the country to make an assessment of the impact of the Bank's policy. We found, for example, I think in Tanzania that the country was more involved and there were research organisations and I think that makes a radical difference because they do understand the context better."[48]

Given the importance we attach to developing countries' ownership of their own development, this approach seems to us to be worthy of support.

33. **It is crucial that each of DFID's spending decisions is linked to the eradication of poverty and attainment of the Millennium Development Goals, irrespective of the way in which the money is channelled. Early and robust assessments of the impact of any proposed course of action on poverty is an effective safeguard against bad spending decisions. We believe strongly that more consistent and transparent use of impact**

43 Q 84 [Mr Pendleton]

44 Ev 120

45 Ev 65

46 DFID, FCO and HM Treasury policy paper, *Partnerships for poverty reduction: rethinking conditionality*, March 2005, paragraphs 5.21–5.22

47 Q 157 [Baroness Vadera and Mr Lowcock]; DFID, *The UK and the World Bank 2006/2007*, November 2007

48 Q 158

assessments by the World Bank across all of its lending is the single most important change in Bank practice that DFID should be pursuing. We were therefore disappointed to learn that this matter had disappeared from DFID's annual publication on the World Bank as the result of an apparent oversight. We recommend that DFID renew its commitment to this safeguard and press for impact assessments by the World Bank which: are rigorous and systematic; enhance borrower country capacity to assess the World Bank's impact; and examine a range of alternative courses of action to find the option that has most benefit for the poor. Such assessments should be published and circulated within civil society in the borrower countries. We recommend that DFID also encourage greater World Bank focus on the issue of incentives for staff to integrate such full impact assessments into their work. Given the strength of our view on this issue, we further recommend that this position is reflected in all DFID's budget discussions with the World Bank and that consideration should be given to taking any lack of progress into account in future funding rounds.

Conditionality

34. A frequent criticism of the World Bank relates to the policy conditions it imposes on borrower countries. Some of the evidence received from non-governmental organisations (NGOs) in this inquiry comments that the World Bank attaches conditions to loans based on what is known as the 'Washington Consensus': grants are released on the condition that borrower governments follow Bank guidance on certain sensitive reforms such as liberalisation of trade, investment and the financial sector, and deregulation and privatisation of nationalised industries.[49] According to this analysis, conditions are attached without regard for the borrower countries' individual circumstances and the prescriptive recommendations by the World Bank fail to resolve borrower countries' economic or development problems.

35. There is a range of different types of conditions available to, and used by, the World Bank. Policy conditions, especially economic ones, are generally most heavily criticised. There are also, however, conditions on process, which relate to the transparency, participation and accountability of policy-making and implementation. The Bank also attaches outcome conditions, though less frequently, which require the borrower country to reach a specified outcome, such as universal primary education.

36. In March 2005, the Government introduced a new policy specifying which conditions should be attached to UK aid.[50] This policy recognised that, while it is right for donors to insist on transparency and accountability for aid funds, it is usually inappropriate and ineffective to use conditions to dictate economic policy to recipient countries. At the same time, the UK also encouraged the World Bank to conduct a review of its use of conditionality. This review agreed a set of 'Good Practice Principles' (GPPs) to guide the way the Bank's conditions were applied: ownership, harmonisation, customisation, criticality, and transparency and predictability.[51] The principles aimed to reduce the overall

49 Ev 79–85, 98–99, 59–61, 106–110

50 DFID, FCO and HM Treasury policy paper, *Partnerships for poverty reduction: rethinking conditionality*, March 2005

51 World Bank, *Review of World Bank Conditionality*, 9 September 2006, chapter vi

number of conditions, and to ensure that those attached were respected and that conditions were closely linked to national poverty reduction plans.

37. In September 2006, the then Secretary of State Rt Hon Hilary Benn MP announced that Britain would withhold £50 million from the World Bank, dependent upon the implementation of the conditionality review and of the GPPs. Commenting on this decision, Nuria Molina of EURODAD said:

> "I definitely think that the strategy of withholding funds by DFID […] has been influential in other progressive governments in Europe and it has definitely put the pressure on the World Bank. […] It is a successful strategy and it should be potentially considered to be used again."[52]

In 2007, the Government announced that it was satisfied with the Bank's progress on conditionality and released the £50 million. In its evidence to us, DFID said that "the principles underlying [the World Bank's] current policy on conditionality are consistent with those framing the UK policy".[53] DFID's evidence goes on:

> "There are two main differences between the two organisations' policies on conditionality. First, the Bank has an explicit focus on policies as conditions, given that Bank Development Policy Lending—as the name indicates—is about supporting policy change. […] DFID on the other hand focuses more on the results achieved than the policies implemented. Second, unlike DFID the Bank does not have the mandate to explicitly use human rights in its conditionality framework."[54]

Some commentators argue that changes in the Bank's conditionality policy have not been sufficiently substantial to converge with DFID's own policy. ActionAid told us in its evidence:

> "The World Bank's policy on conditionality […] falls short of that of DFID. […] The Bank's interpretation of these [Good Practice] Principles is ambiguous, and their implementation has fallen short of expectations. Under the principle of 'ownership', for example, the Bank's emphasis is on a country's acceptance of a given set of policies, rather than its ability to choose its own development path."[55]

38. The issue of 'ownership' emerges in some of the evidence from NGOs as a fundamental concern. They argue that capacity needs to be built in developing countries for their own safeguards and systems, agreed in advance with the Bank, to function as the checks and balances needed to monitor expenditure. They assert that the model of imposing Bank conditions is simply ineffective and invites borrowers to agree to conditions that are poorly monitored and therefore easy to ignore. For example, World Vision's evidence says:

> "There has been a failure to shift from donor use of conditionality for poverty reduction to effective domestic accountability mechanisms that sufficiently draw on citizen engagement. World Vision is concerned that this failure undermines […] the

52 Q 29 [Ms Molina]

53 Ev 56

54 Ev 56

55 Ev 60

> achievement of poverty reduction results. This would perpetuate voice without influence and weakens citizens' ownership of the development agenda, resulting in donors aligning and harmonising around a weak or even illegitimate development agenda with the potential for poor development results."[56]

39. During our meeting with President Zoellick he told us that the current trend in World Bank conditionality was to build on what both common sense and experience had shown: that development does not work without borrower country buy-in. He said that conditions had a particular bridging role where country systems were not yet sufficiently robust. The default position, however, was that conditions were developed in tandem with developing countries, and often at their behest to support domestic reforms. However, in one of our evidence sessions EURODAD and Bretton Woods Project questioned such use of conditionality to strengthen a borrower country government's hand in pursuing domestic reforms:[57]

> "I think there is this fundamental divide, where civil society says that if this is the reform agenda of a government by democratic principles, it should have to win the argument of the day. It should not be able to use, rightly or wrongly, the pressure of an international lender to achieve that reform. If they cannot achieve that reform that means the domestic political economy is not yet prepared for that reform."[58]

40. There is clearly divergence of view between what many civil society organisations view as what the Bank's role should be and the Bank's, and some of its shareholders', own views. Greater clarity would reduce unproductive misunderstandings and focus the debate on how effective the Bank is at helping reduce poverty and achieve the Millennium Development Goals. We agree that the Bank should seek agreement with the governments of developing countries about their macroeconomic policies because the macroeconomic framework has a significant impact on the government's ability to reduce poverty. We also agree that the Bank should consult parliaments, civil society and other key stakeholders about its lending policy rather than imposing conditions unilaterally.

41. The World Bank produced reviews of the application of the GPPs in both 2006 and 2007. These concluded that "Bank support remains broadly consistent with the Good Practice Principles on conditionality".[59] Evidence from EURODAD said that independent monitoring of the Bank's progress on conditionality against independently set targets would "provide objective and independent evidence for governments".[60]

42. **Conditionality remains a contentious issue for many civil society commentators. We have not been persuaded that the World Bank is pursuing an aggressive policy of imposing burdensome, sensitive policy reform conditions on borrower countries, although we accept that there are some cases where this has happened in the past. We do however share some of the concerns expressed to us about ownership of the development process by developing countries. There are no short-cuts in development.**

56 Ev 122

57 Qq 26–27 [Ms Molina and Mr Powell]

58 Q 27 [Mr Powell]

59 World Bank, *Conditionality in Development Policy Lending*, November 2007, paragraph 3

60 Q 29 [Ms Molina]

World Bank diktat is no substitute for thorough debate and engagement of parliaments and other stakeholders by the borrower country government. It is only by this latter means that a resilient development programme with broad domestic support can be achieved. We recommend that the UK Government develop, with like-minded countries including borrower nations, a proposal for independent monitoring of World Bank conditionality to ensure that all the Good Practice Principles, especially ownership, and dialogue with parliaments are fully reflected in World Bank practice.

Gender

43. DFID's Gender Equality Action Plan, published in March 2007, declared progress on gender equality to be a critical factor in achieving all the Millennium Development Goals.[61] The Secretary of State reinforced this view in a speech in Washington on 12 July:

> "I am particularly conscious that the face of poverty in developing countries is overwhelmingly female […]. The economic, social and political position of women in many countries is actively preventing us from reducing child and maternal mortality and stopping the spread of HIV/AIDS. Empowering women must be a priority for all of us."[62]

44. The Bank's first Gender Action Plan (2007-2010), *Gender Equality as Smart Economics*, focuses on employment-led growth and aims to promote women's economic advancement in land, labour, and financial and product markets.[63] The Plan is at an early stage of implementation and builds on a previous World Bank 'gender mainstreaming' plan. Its emphasis is on "producing demonstrable results in a reasonable timeframe" and its impact will be assessed at the end of the four-year period.[64] The Minister told us that the UK supports the Bank's focus on "what the Bank believes is its comparative advantage, which is around the economic empowerment of women" and that the UK will "push for the mainstreaming of gender in social policies".[65]

45. ActionAid was critical in its evidence to us of what it perceives as a policy which is too restrictive:

> "Poverty has a female face, and therefore any efforts to fight poverty need to place women's rights front and centre. However, the World Bank's Gender Action Plan fails to sufficiently address the need to empower women. Instead the policy is based solely upon the fact that it makes 'economic sense' to promote women working in selected industrial sectors […]. Moreover, the World Bank gender policy does not cover policy-based lending […] thus operational policies are the only Bank policies to which civil society can hold the Bank to account on gender issues."[66]

61 DFID, *Gender Equality Action Plan 2007–09*, February 2007 (www.dfid.gov.uk/news/files/role-women.asp)

62 "The Role of International Development in a Changing World: The Perspective from Britain", Speech by the Secretary of State for International Development at the Council on Foreign Relations, Washington DC, 12 July 2007

63 World Bank, *Gender Equality as Smart Economics*, September 2006

64 World Bank, *Gender Equality as Smart Economics*, September 2006, page 6

65 Q 175

66 Ev 61; 'Policy-based lending' refers to lending which is conditional on certain policy reforms—see previous section on Conditionality.

46. **We believe that the Millennium Development Goals will never be achieved if women's empowerment is not central to development efforts. The World Bank's action plan on gender, launched last year, was overdue. Strategic commitments and associated actions on economic empowerment of women may, if based around the clear principles of women's rights, provide sufficient scope to hold the Bank to account across the range of its activities. We recommend that the Government assess now how it can best support and improve the plan, and contribute to its mid-term and final assessments, and that it share with us a timed outline of this UK strategy.**

Country-level effectiveness

47. DFID told us that improving the Bank's 'country-level effectiveness' had been one of its key priorities in the IDA negotiations.[67] Country-level effectiveness has implications for how the World Bank delivers assistance, for how well co-ordinated and aligned its own programmes as well as those supported by other donors are, and for its presence and operations in-country. During the fourth negotiating meeting on IDA 15, participants urged the Bank to develop a strategy on this issue in time for a high-level conference on aid effectiveness in Accra in September 2008.[68]

48. Decentralisation, or the relocation of staff from Washington to the field, is a central part of the country-level effectiveness agenda. The Minister said that DFID had secured a good outcome on this issue, for Africa in particular:

> "We secured, for example, a commitment that they would increase the number of staff, internationally recruited staff that were going to be based in Africa by 50% and that really has a very serious impact because it has an impact of course on conditionality and doing impact assessments and understanding the local context and being able to speed up the disbursement [...] and it helps in harmonisation."[69]

The Minister also told us that DFID had prepared a paper for the Bank's new Managing Director with responsibility for Africa on providing incentives to encourage staff to take up posts there.[70] **We endorse DFID's practical support for the Bank's decentralisation initiatives, especially in Africa, and recommend that DFID continue to build up its advisory and knowledge-sharing role in this area.**

49. Achieving a high degree of country-level effectiveness is particularly critical in fragile states, themselves another theme of the IDA 15 negotiations.[71] DFID's publication *The UK and the World Bank 2006/2007*, notes that "fragile states are home to more than 500 million of the world's poorest and most disadvantaged people".[72] Addressing the needs of these populations is therefore central to the World Bank fulfilling its remit on global

67 Ev 55

68 "IDA Replenishments", World Bank website (www.worldbank.org)

69 Q 143

70 Q 148 [Baroness Vadera]

71 Conflict is a major cause of state fragility and the term 'conflict-affected state' is often used interchangeably with fragile state. DFID's definition of a fragile state is not limited to conflict-affected but extends to cover those "where the government cannot or will not deliver core functions to the majority of its people, including the poor".

72 DFID, *The UK and the World Bank 2006/2007*, November 2007, page 20

poverty. President Zoellick told us that building a better analytical understanding of fragile states was a priority for him.[73]

50. International Alert conducted a review of the Bank's work in this area in 2007.[74] It accepts that the Bank has been making progress on its strategic and intellectual handling of this policy area, generating knowledge and analysis and working to adapt procedures and policies.[75] However, International Alert's evidence to us goes on to say:

> "Despite these efforts, the *practice* of the Bank, institution-wide, still trails behind. The direction and country-level decision-making of the Bank is dominated by economists who have insufficient incentives to take account of political and social issues. A high premium is placed on quantitative data (whose collection is often flawed) and technical statistical 'results', while much less attention is paid to power dynamics, relations between civil society and the state, and the spatial, gender or identity group distribution of the aid provided."[76]

51. Given the stated DFID priority for the World Bank to focus on fragile states, we asked Edward Bell of International Alert to comment on the interaction between DFID and the Bank in terms of these states. Co-operation was good in some areas, he said, but the ability of DFID to ensure that "progressive thinking" percolated across the whole of the Bank was limited, not least due to staffing constraints:

> "It is clear that DFID has made a very strong political commitment to reducing the incidence of violent conflict but that has not come with the requisite levels of staffing […]. I would not say there has been a decision to cut staff but given the recognition of how important it is, there is not the same attention to the amount of expert labour and skills that are needed. […] Too often, with country strategy papers, very large development programmes are waved through the Board of Directors without sufficient input from either DFID staff in the field or DFID staff in London."[77]

52. **We welcome the priority that DFID has given to securing greater focus by the World Bank on country-level effectiveness and fragile states. As a result of the prominence of these themes in the International Development Association negotiations, we look forward to more intensive World Bank activity in both these areas of work. DFID must recognise, however, that changes in the focus of the World Bank may need to have a consequent impact on DFID's own resources. We recommend that DFID reassess its staffing arrangements and analytical capacity in both these areas of work to ensure that it can carry out satisfactory oversight of the Bank.**

73 Annex 1

74 International Alert, *The World Bank in fragile and conflict-affected countries: How, not how much*, February 2008

75 Ev 89

76 Ev 89

77 Qq 103–104

4 DFID's presence and influence

53. We discussed in the previous chapter some examples of the extent of DFID's influence at the World Bank, including the impact of its withholding funds in 2006 and its influence over the negotiations on IDA 15. In this chapter, we look at the arrangements and structures in place in order to effect that influence.

54. During our visit to Washington, we heard both from Bank staff and from donor and borrower delegations that the UK had considerable influence at the Bank. President Robert Zoellick said that this was due not just to the UK's financial commitments but to its willingness to engage with the Bank intellectually. In contrast, some NGOs and commentators in Washington said that DFID was too stretched to influence the Bank as well as it might. The position of International Alert as set out in the previous chapter would appear to support this view, as does the comment by Simon Counsell of the Rainforest Foundation UK that it was very difficult for DFID staff to check the rigour of the Bank's impact analysis given its staffing arrangements in Washington.[78]

Staffing

55. All staff in the Executive Directors' offices (delegations) at the World Bank are paid for from World Bank, rather than national, budgets. The UK, along with France, has an Executive Director shared between the World Bank and International Monetary Fund (IMF) while all other delegations have dedicated Executive Directors for each institution. During our visit to Washington, the UK delegation argued that this arrangement facilitated good communication and allowed the joint delegations to draw out synergies and common themes between World Bank and IMF work, ensuring a 'joined-up' approach to the issues. The current UK Executive Director for the World Bank and the IMF is a civil servant from HM Treasury and his Alternate (or deputy) for the World Bank is a civil servant from DFID—this was also the case with their predecessors.[79] It appeared to us that the Alternate acted as *de facto* Executive Director in most circumstances, although without the seniority and influence that comes with that office. This is, of course, not a reflection on the individuals involved but rather on the staffing arrangements themselves.

56. On our return from Washington, our preliminary view was that the historical arrangement of a part-time Executive Director at the World Bank was no longer adequate. We shared this preliminary view informally with the Secretary of State. Two days before our evidence session with the Minister, the Secretary of State wrote to the Chairman of the Committee to tell us that the Government had reviewed the staffing arrangements in Washington and would now appoint full-time Executive Directors to the World Bank and the IMF.[80] The Secretary of State's letter said that the World Bank senior management "strongly supported" this decision. When we asked President Zoellick his view on UK staffing at the Bank during our visit he said that he was not competent to give one.[81] The

78 Qq 80–81 [Mr Counsell]; and see paragraph 51 above.

79 The UK Executive Director to the World Bank and the IMF has one Alternate Executive Director for the World Bank and another for the IMF.

80 Ev 59

81 Annex 1

Minister told the Committee that the World Bank Executive Director would be appointed by DFID. The rationale for the change of policy, she said, was that with the new increased funding,

> "we were asking of the Bank quite a lot of things in terms of new challenges, things that you have talked about in the hearings here on climate change, but also on certain reforms within the Bank […] and given the amount that we were asking of the Bank […] we should move to a separate Executive Director."[82]

57. We heard from the delegation during our visit to Washington that the UK chooses not to use all of the other Bank-funded staff slots available to it: the joint office currently had six advisers but it has scope and funding available for two more. The Executive Director's view was that a full complement of staff would mean diluting the quality of the portfolios available and so attracting less high quality staff. The UK would therefore not make use of the full complement available to it.

58. **We support the Secretary of State's decision to appoint a full-time UK Executive Director to the World Bank. It is appropriate recognition of the need for UK oversight of the Bank to be as well-resourced and comprehensive as that of other delegations, if not more so given the UK's role as the largest bilateral contributor to the International Development Association. We are glad that the Secretary of State listened to our representations about this matter and take some satisfaction from the part that we appear to have played in changing the policy, especially given the surprisingly vigorous defence of the shared directorship provided to us by the UK delegation. We recommend that DFID take up all adviser slots available to it in Washington—the UK cannot afford to be under-resourced at a time when its oversight of and influence over the World Bank must be as strong as possible.**

Trust funds

59. Bank-managed Trust Funds have proliferated in recent years to over 900 today and the volume of funds passing through them doubled between 2000 and 2005. Funds range in size up to several billion dollars, such as for the Global Fund to fight AIDS, TB and Malaria (GFATM). In addition to its contribution to IDA, the UK was the largest contributor to Bank-managed Trust Funds in 2007, providing around £721 million (up from £357 million in 2006).[83] On current trends, the UK could soon be contributing around the same amount through Bank Trust Funds as it does through IDA.

60. The Funds provide a way for donors to channel their money to particular areas as the Funds each have a specific focus or set of objectives, in contrast to IDA's broad remit and reach. Some Funds focus on a country or region—Africa receives the largest share by region and we have examined the Afghanistan Reconstruction Trust Fund in detail in our recent Report.[84] Others focus on a 'global public good', such as through the Global Environment Facility. The larger Funds are, in effect, autonomous entities whose funding is held in trust by the World Bank. The Minister said:

82 Q 134

83 DFID, *The UK and the World Bank 2006/2007*, p 47

84 International Development Committee, Fourth Report of Session 2007–08, *Reconstructing Afghanistan*, HC 65

> "I do not think Trust Funds are a very homogenous group. […] About a third of our contributions to Trust Funds are in fact to five global aid institutions [… such as the GFATM]. We then have about a third going to country Trust Funds, where we think that they can be a very effective pooling mechanism. So in one sense there is a Trust Fund which is about policy and there is also a Trust Fund where […] the Bank is just being the financial agent, being a bank."[85]

61. We put to DFID the view that the Funds were a way for donors to work around the limitations and problems of the Bank's major institutions and as such weakened donor incentive to push for reform of institutions such as IDA. One of the Minister's co-witnesses, Mark Lowcock, responded:

> "I think there is one category, if I may say so, for which there is a potential concern, which is to do with the administrative budget. We think, for example, that the World Bank should have much greater expertise on gender and social issues and […] at the same time it is true that there is a Trust Fund which helps build their capacity on gender issues [… There is a] risk of Trust Funds on staffing creating a silo, when what you really need is a mainstreaming across the whole of the system."[86]

62. The proliferation of Funds has implications for aid effectiveness and donor harmonisation, particularly as Funds can have conditions—such as on staffing—and different reporting or monitoring requirements attached. The Bank asserts, however, that Funds facilitate harmonisation by helping to "leverage donor resources for a broad range of development initiatives at the global, regional and country level".[87] The Minister said in her evidence:

> "We have found them an effective mechanism for a number of reasons; one of them is around pooling and harmonisation and reducing the burden for countries […]. I agree that if you end up with six Trust Funds in one country you have slightly defeated the purpose of having the Trust Fund. In-country it tends to be a little less like that."[88]

63. **On current trends, UK funding for World Bank-managed Trust Funds will soon match UK funding for the International Development Association. Some of these Funds are largely autonomous institutions with which DFID will need to engage directly to influence policies. For those for which the World Bank is both financial agent and policy lead, DFID is right to provide support if such Funds can add value to the work done by the Bank's major institutions and reduce the burden on borrower countries. We are concerned however that any further proliferation of Funds could distract World Bank shareholders from the key challenges ahead with regard to its main institutions, such as ensuring IDA effectiveness and progress on governance reforms. We recommend DFID resist proposals to set up any further Funds or where it supports such proposals—for example on climate change—provide us in advance with the rationale for its support.**

85 Q 166

86 Q 167 [Mr Lowcock]

87 World Bank, *2006 Trust Funds Annual Report*, section 1, paragraph 3

88 Qq 166 and 169

5 Governance and accountability

64. In its evidence, DFID told us:

> "The credibility and effectiveness of any organization depends on the effectiveness of its internal governance and its transparency."[89]

We agree and assess in this chapter the Bank's credibility and effectiveness from that perspective.

Reform of the World Bank Board

65. The World Bank's decision-making structures and its internal governance are dominated by industrialised countries. Evidence from One World Trust says,

> "For the purposes of credibility, effectiveness and accountability, internal governance in the World Bank is inseparable from composition of the Board of Executive Directors. The composition of the Board of Directors reflects the political power relationship within the Bank".[90]

There are 24 Board Members currently representing the interests of 185 countries. The five largest donors—France, Germany, Japan, the United Kingdom and the United States—hold more than two-thirds of the voting power at the Board of Directors. The US alone has a 16.8% voting share.[91] Eight countries, including the five largest donors, Saudi Arabia, Russia and China have their own Executive Director on the Board. Developing countries are not as well-represented as developed countries. Some Board members, including those from all developing countries except China, represent dozens of countries. The 47 countries of Sub-Saharan Africa are represented by two Executive Directors.

66. There was broad support in the evidence we received for reform of the World Bank Board, in terms of make-up and voting shares. The Trades Union Congress (TUC) argues that:

> "Developing nations […] are not adequately represented in the decision-making processes and have so little voting power that they are unable to exercise any influence over the decisions affecting the lives of their citizens. […] It is imperative that the quota system, voting, representation and access to resources be reformed in order to enable low-income countries to wield more influence."[92]

ActionAid's evidence recommends:

89 Ev 57

90 Ev 95

91 This percentage refers to IBRD voting shares. World Bank website (www.worldbank.org).

92 Ev 109

> "Voting shares on the World Bank board should be fully democratic. As a first step towards this, we advocate a double majority voting system, in which both a majority of countries and of votes are required to pass any decision."[93]

Double majority voting, for example where decisions would need to be approved both by the current system and by a one-country-one-vote system, was also supported in submissions by One World Trust and Bretton Woods Project, the latter also advocating that:

> "The UK should support the end of appointed chairs [for US, UK, Japan, Germany and France], and a consolidation of European representation on the board to allow increased chairs for developing country representatives."[94]

67. During our visit to Washington, we heard from the World Bank's senior management that progress on reform of the Bank's voting shares would await the outcome of a similar exercise which was more advanced at the IMF. IMF staff expected modest changes from this review. The TUC's evidence says that the scope of the IMF review has fallen "far short of expectations and is unlikely to enhance the voice of low-income countries significantly".[95]

68. DFID's 2006 White Paper on governance stated that "developing countries need more influence in the World Bank and the IMF. They are weakly represented on both Boards where voting rights are decided by financial contributions. This balance must change."[96] During our questioning of the Minister on this issue, she did not have a final view on how precisely the balance should change and suggested further discussion.[97]

69. Enhancing the influence of developing countries at the Board is not simply a question of representation but also of capacity. DFID provides funding for the Analytical Trust Fund which is aimed at helping African representatives on the Board obtain independent analysis to inform their positions on Bank proposals. The Minister commented on this initiative:

> "I have to be honest and express some disappointment about the Analytical Trust Fund […] I think it has two problems. The first is that in one sense you cannot outsource being the client and the client is the Executive Director […]. Secondly, the consortium that provides that support is very research focused, whereas what the two African Executive Directors face is they have to turn up every day and they have to be prepared for quite a wide ranging discussion about all of the policy papers and all of the decision papers that are in front of them."[98]

70. **Adequate representation of developing nations in World Bank decision-making is not only a question of fairness, it is one of effectiveness: we believe greater ownership**

93 Ev 60

94 Ev 64

95 Ev 109

96 DFID White Paper, *Eliminating world poverty: Making governance work for the poor*, July 2006, para 8.22

97 Q 159

98 Q 159

and buy-in by developing countries will lead to more effective Bank programmes. The Government has been better at setting out this argument than at developing a solution to the problem. As we have stated, the UK has a responsibility as a leading nation at the Bank to act decisively on these issues.

71. **We believe that double majority voting has some merit and is worthy of serious study by DFID. We recognise, however, the difficulties of securing any reform to the voting arrangements: the Bank is run as a shareholder organisation and donors are unlikely to wish to cede large amounts of power. While votes are important, the outcome of any renegotiation is unlikely, in our view, to deliver more than minor changes. The UK should therefore prioritise action on practical and immediate changes which can help to rebalance the Board to give developing countries a greater voice. In our view, the most critical Board reform issue is the representation of African countries and the capacity of these delegations. As a priority region for the World Bank and the continent facing the biggest challenge in terms of the Millennium Development Goals, Africa should have at least one more Executive Director on the Board. We recommend that DFID pursue this objective as a priority and separately from any broader reform deal. Moreover, given that the Trust Fund set up to support African Executive Directors is not delivering the desired results, we recommend that the UK urgently propose a new method, and consider providing new and additional money, for developing greater capacity in these delegations.**

The President of the World Bank

72. In theory and according to the Bank's statute, the Board of Executive Directors selects the President of the World Bank.[99] In practice, Mr Zoellick, like his predecessors, was selected by the United States while the new Managing Director of the International Monetary Fund was selected by European countries. Commenting on this arrangement, One World Trust said:

> "This gentleman's agreement between the US and Europe reduces the legitimacy and credibility of the World Bank. No clear procedures exist for ensuring the qualifications of a candidate, nor does a process exist for other member states to review and question appointments. The World Bank President should be selected through an open and transparent process."[100]

73. None of the evidence we received in this inquiry, whether from the Government, civil society or the academic community, argued for a continuation of the *status quo* with regard to the selection of the President. The Government has said that it would like to see the system reformed to make the selection process fairer.[101] In her evidence the Minister said:

> "We have been extremely clear and vocal, for example on the issue of the election of the President that we wanted to see an open and transparent process. The

99 World Bank, IBRD Articles of Agreement: Article V, Section 5

100 Ev 96

101 Ev 58

> circumstances of the selection of the current President were a little bit different and speed was of the essence, so perhaps that was not the best time."[102]

Commenting on the 2007 selection process in particular, Lauren Phillips of the Overseas Development Institute said:

> "While [the UK] initially voiced an interest in seeing a fair leadership contest for the positions of President and Managing Director, they have eventually fallen in line behind the establishment candidates."[103]

The TUC also commented on the UK's role in the most recent selection process:

> "Although the DFID has clearly signalled that it would seek changes to the selection processes, the most recent events leading to the appointment of the current President of the World Bank are symptomatic of the chronic malaise felt by leading developed nations, including the UK, over significant reforms to the institutions concerned."[104]

74. Some witnesses raised concerns not only about the selection process but about the accountability of the role of the President itself. Bretton Woods Project said:

> "Astonishingly, for an institution which advocates improved governance and accountability in its clients, the World Bank has no mechanisms to evaluate the performance of the President".[105]

75. **There is a broad consensus that selection of the President of the World Bank, one of the most influential figures in international development, should be transparent and based on merit, rather than in the gift of the United States. The Government supports this position and made some effort to change the system during the selection of President Zoellick. We recommend that DFID initiate work now towards agreeing an open and merit-based process for selecting his successor. Such a strategy would need to include giving up Europe's monopoly on the post of Managing Director of the International Monetary Fund. The UK should use its role as the largest contributor to the International Development Association and its related increased leverage in Washington to bring about such a 'grand bargain'. DFID should ensure that, as part of the review of the selection process, systems are put in place to evaluate the performance of the President during his or her tenure.**

The World Bank as a non-political actor

76. One of the clauses of the World Bank's founding charter, the Articles of Agreement, states that:

> "The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to

102 Q 171

103 Ev 100

104 Ev 109

105 Ev 64

> their decisions, and these considerations shall be weighed impartially in order to achieve the [Bank's stated] purposes."[106]

This clause informs the Bank's approach to policy and its policy of engaging predominantly with governments rather than a broader range of political actors. Some evidence received in this inquiry asserts that the Bank is in fact a fundamentally political institution, given its involvement in sensitive domestic reforms, and that it should have a broader political engagement strategy. Evidence from International Alert on the Bank's work in fragile states says:

> "All aid has local political impacts, and local politics affect all forms of external engagement. […] A failure to understand power relations and social dynamics […] risks not only ineffective assistance but also that aid itself becomes a resource worth competing, or even fighting, for."[107]

77. In his evidence, Michael Hammer of One World Trust raised the issue of World Bank consultation with stakeholders beyond governments, including parliaments. According to the Trust, the Bank was:

> "very, very weak when it comes to its ability to be transparent and its ability to be really participative, in the sense that stakeholders who are affected, living in the countries in which most of the World Bank funding is going to […] There is very limited opportunity for people in those countries, or through their representatives, for instance, in parliament, to actually input and exercise some form of control over what the World Bank does."[108]

The need for the Bank to increase its accountability through parliaments was raised with us, both in terms of donor country and borrower country parliaments. Christian Aid said:

> "Both [the World Bank and IMF] should undertake reforms to make their boards and management more accountable to recipient country citizens and parliaments, and to the governments and parliaments of all member countries."[109]

78. We wrote to President Zoellick at the start of this inquiry inviting him to give formal oral evidence. Mr Zoellick declined the invitation. In his response to us he cited the need to avoid "involvement in domestic political affairs" as a reason why neither he nor other Bank staff could give evidence to any parliament.[110] We publish, however, a summary record of our informal meeting with him as an annex to this Report.[111]

106 World Bank, IBRD Articles of Agreement, Article IV, Section 10

107 Ev 89

108 Q 3 [Mr Hammer]

109 Ev 84

110 Letter from the President of the World Bank to the Chairman of the International Development Committee, 14 August 2007 [not printed]

111 Annex 1

79. One World Trust recommended that the Bank allow its staff to appear at parliamentary evidence sessions and hearings in both donor and borrower countries.[112] We put this idea to the Minister, who said:

> "The thing that would worry me the most about parliaments would be the parliaments in developing countries where the Bank is very powerful as an agent of change in many cases and the ability of those parliamentarians to be able to ensure that they understand and talk to the Bank."[113]

80. During our meeting, Mr Zoellick said he was keen for the Bank to work more with parliaments and that the Parliamentary Network of the World Bank (PNoWB) offered one avenue for this.[114] He said that he was looking at ways of supporting PNoWB without undermining its independence. We have sent representatives to each of PNoWB's annual conferences. A former Chairman of the International Development Committee, Bowen Wells, played an important part at its inaugural conference and served on its Executive Committee, as two other members of this Committee, Tony Worthington and Hugh Bayley MP, have done since then. We believe that PNoWB plays an important part in the Bank's relations with national parliaments. We are pleased that the President of the World Bank attends PNoWB conferences to answer questions from parliamentarians and we were impressed that Robert Zoellick began his meeting with us by emphasising, unprompted by questions, the importance of PNoWB. We are concerned, however, that PNoWB relies heavily on the Bank's staff to deliver its programmes of activities, and that it has only limited funds of its own, provided largely by the Dutch and Finnish governments, and only a single member of staff.

81. **The World Bank argues that its founding articles restrict its ability to engage with political actors beyond governments. The Bank has, however, made some efforts to engage with and consult parliaments and civil society on some policy and operational matters with mixed success. We believe such engagement is particularly important in borrower nations where it has the potential to bring about national debate and ownership, which could significantly enhance World Bank performance as well as strengthening accountability in those countries. We recommend that DFID encourage the World Bank to adopt outreach strategies with parliaments and civil society consistently across its programmes, especially with borrower countries.**

82. **Parliaments have a central role in overseeing government expenditure of national budgets. Those elements of national budgets which are donations to the Bank or assistance from it should fall within that oversight. In our view, it follows that the Bank should make itself available to provide formal evidence and information directly to parliaments to complement that provided by governments, as other multilateral organisations such as the United Nations do. We recommend that DFID ensure that the Bank's policy of refusing to appear formally before parliamentary bodies is discussed at the Board of Directors within six months; that it push for a change in the policy; and that it report back to us on those discussions.**

112 Ev 97

113 Q 190

114 Annex 1

83. **The Parliamentary Network of the World Bank plays an important role in the Bank's relations with parliamentarians. It receives help in cash and kind from the World Bank but we believe that it would be more effective and more independent if it had a larger secretariat of its own. We ask DFID to consider how it and other donors could provide funding for a larger PNoWB secretariat and for its outreach activities with parliamentarians, especially in developing countries.**

Advocating a reform agenda

84. We have discussed above the Prime Minister's reform agenda for the World Bank: to create a Bank adapted to today's needs. DFID publications also refer to its support for institutional and governance reform, including the selection process for the President and how to ensure developing countries are properly represented in Washington.[115] We were keen to establish during the course of this inquiry how effective DFID was, not simply in setting out its reform agenda but also in pursuing it.

85. Evidence from Lauren Phillips at the Overseas Development Institute says:

> "The UK has played an ambiguous role in the process to reform the Bretton Woods institutions and therefore increase their credibility with borrowing governments. While on the one hand it made initial gestures supporting reform of formal representation within the institutions, it has more recently become part of a group of countries which is blocking a final deal."[116]

We discussed the UK's role in advocating reform during our visit to Washington. We learnt from commentators and observers of the World Bank that Australia, Canada and Brazil were perceived to be highly active, visible and strong advocates for institutional reform. We put to the Minister the comment made to us by one influential Washington think-tank that, in contrast to those countries, the UK had been a "strangely silent player" on institutional reform issues. She responded:

> "I am sorry if that impression has been created and we will certainly have to change that if that is the case. I think it would be unfair to say that that was an accurate reflection of the reality. We have been, as I was explaining, perhaps a little more silent on the issue around a reform of the voting and more structural reforms because we believed that we wanted to get the developing countries themselves to have a clearer view of what they wanted and to respond to them rather than to impose our view."[117]

86. As well as co-ordinating views with developing countries, DFID's evidence notes that the UK works with EU partners to advance its reform agenda.[118] In its evidence, Bretton Woods Project told us that the UK should be pursuing alliances with "like-minded donors"

115 For example, see DFID, *The UK and the World Bank 2006/2007*, November 2007, section 5

116 Ev 100

117 Q 171 [Baroness Vadera]

118 Ev 55

more actively, including those beyond the EU such as the Norwegians, to push for reform.[119]

87. **Given the priority the Prime Minister and the Secretary of State attach to World Bank reform, it is perplexing that British advocacy of that agenda in Washington is not more high-profile. We assume that not all of DFID's work on this issue is in the public eye—nor should it be. Advocacy does require some public position-taking, however, and we recommend that the Government do so more consistently in Washington.**

88. **We accept the Minister's view that developing countries must also advance a view on reform issues. We reject, however, the implication that the UK should wait until they do so. As a major shareholder and contributor to the World Bank, the UK has a distinct leadership role. The UK must not only articulate a vision for reform of the World Bank but it must pursue this with vigour, building alliances with borrower countries and with other like-minded donors in and outside the European Union.**

119 Qq 31–32 [Mr Powell]

6 Towards a new World Bank

89. The international climate in which the World Bank operates as a lending institution has altered in recent decades. Alternative sources of assistance and credit have opened up to developing countries. For example, China has become an important funder of infrastructure projects in Africa, and commodity prices have created new options for some resource-rich countries. Moreover the tasks the Bank faces have evolved as the global economy and the challenges facing developing countries have changed. It is with these factors in mind that we look in this chapter at the World Bank's future remit and business model, focusing on its role as a 'knowledge bank' and its work on climate change.

The World Bank as a 'knowledge bank'

90. During our visit to Washington, we heard the view that some countries, particularly middle-income countries like China and emerging economies such as India, valued the World Bank's expertise and advice more than its lending function. President Zoellick told us that the Bank's model for engagement with these countries was evolving and that in these circumstances loans were a way of compensating the Bank for its expertise as a 'knowledge bank' and of tying the Bank closely to loan outcomes.[120] This analysis chimes with our experience of seeing the Bank's work in action around the world and the high premium put on Bank advice and analysis by both donor and borrower governments. In many cases, it is the advice and analysis which informs the broader development community's effort in-country and significantly influences other donors' decisions.

Advice versus lending

91. The then World Bank President James Wolfensohn first articulated the concept of the Bank as a 'knowledge bank' in 1996. This centred on the Bank's role in creating, sharing, and applying knowledge to assist countries to speed up and ensure high standards in their own development. The principle was later set out in the Bank's Strategic Compact in 1997, which noted the need to strengthen the management of best practice and create a "first class knowledge management system".[121] In his introduction to DFID's most recent report on the UK and the World Bank, the Secretary of State writes:

> "The Bank continues to provide world class intellectual and analytical work that many other development partners rely upon for their own work. And the Bank remains a forum for all countries to work together on development issues on a daily basis. Money, knowledge and partnership—three essential ingredients for poverty reduction."[122]

92. Some of the evidence we received in this inquiry raised concerns about the evolution in the Bank's role from lending institution to 'knowledge bank'. These concerns were related to both the quality of the knowledge and the dominance of the Bank's analysis. Drawing

120 Annex 1

121 World Bank, *The strategic compact: renewing the bank's effectiveness to fight poverty*, 1997

122 DFID, *The UK and the World Bank 2006/2007*, Introduction

on a 2007 independent evaluation of the World Bank's record on research, Bretton Woods Project told us:[123]

> "The World Bank has been increasingly set up as a 'knowledge bank'. There are mixed incentives at play, however, if the same institution that disburses a significant proportion of multilateral lending also has responsibility for defining and disseminating best practice in economic, social and political development. This was clearly seen in the highly critical evaluation of the World Bank research [… which asserted that the research] is used to support Bank policy rather than used to reflect and potentially challenge Bank policy".[124]

A study for the Swedish Ministry of Foreign Affairs, prepared by the Institute of Development Studies at the University of Sussex, commented on the Bank's 'knowledge role' and analytical approach:

> "The World Bank continues to be the main purveyor of development ideas. In addition and although its policies change significantly over time, 'the Bank can never be wrong' mentality still prevails in much of the institution's thoughts and actions."[125]

Bretton Woods Project's evidence goes on to recommend that DFID "break the Bank's monopoly on knowledge" by supporting other organisations' capacity to conduct research and provide advice for developing countries.

93. **The World Bank has come to occupy the role of foremost source of international development knowledge, advice and analysis. Development will not succeed through lending alone and we support the Bank's efforts to ensure that it provides intellectual added value to its lending. The Bank's analysis influences decisions across the development community, including DFID's own decisions. DFID must, therefore, be confident that the Bank's knowledge is credible in the way it is both created and shared. We recommend that DFID work closely with the Bank to ensure that its role as a 'knowledge bank' is demonstrably neutral and flexible, providing well-argued menus of best practice options for effective development. This is long-term work and we look forward to a detailed explanation of it in DFID's next and subsequent annual reports on the UK and the World Bank.**

94. Another way of reconciling what the Bretton Woods Project calls the Bank's "mixed incentives" as both lender and adviser is to separate those functions in certain circumstances—often referred to as 'unbundling' loans and advice. United States officials told us that the US supported unbundling in principle but questioned what alternative model of funding could enable the Bank to operate as a consultancy. The Minister's comments to us echoed this concern:

> "There are some extreme views that they [the World Bank] should not be bothering with the lending at all, but we do not accept that. […] When you unbundle it, of course, it becomes an issue of who is paying for the advice and, interestingly, what

123 Angus Deaton et al, *An Evaluation of World Bank Research 1998–2005*, January 2007

124 Ev 83

125 Keith Bezanson et al, *A Foresight and Policy Study of the Multilateral Development Banks*, 2000

> we have found is that countries would like the advice but they do not particularly want to pay for it […] the lending actually gives you the source of income that pays for it." [126]

In contrast, the Centre for Global Development, a Washington-based think-tank, sees merit in allowing what might be seen as a more market-based approach to Bank services. It is supportive of the principle of unbundling on the grounds that this would enable the Bank to consolidate its areas of comparative advantage:

> "Given the Bank's widely acknowledged culture of over-lending and its relatively weak mechanisms of evaluation, its shareholders as a group need some mechanisms, however imperfect and rudimentary, to help determine the 'value' of its various services […] and to help push its management and staff toward those services in which it has a comparative advantage as a global institution."[127]

The Centre suggests an unbundling model whereby the price of services would be discounted for various countries dependent on their income group, so that some would pay 80% of the cost price for Bank services and others 50% or even 20%.

95. **The World Bank's historical financing model whereby interest on loans is a means of compensating the Bank for its advice is sustainable as long as developing countries are willing to accept the arrangement. We see some merit, however, in the World Bank assessing other, more flexible options for financing its services as a knowledge bank. Separating loans from advice might be a more practical way forward than reliance on an old financing model. We believe a plan which allows different income groups to pay for services according to a sliding scale of discounts is one which deserves further feasibility study and we urge DFID to pursue with the Bank's management strategic work on this and other alternatives for unbundling loans and advice.**

DFID and the World Bank in middle-income countries

96. The 'knowledge bank' role of the World Bank has a particularly strong function in middle-income countries. DFID has set a target of spending 90% of its bilateral aid in low-income countries and 10% in middle-income countries. This so-called '90/10 split' is now an established tenet of DFID policy. Consequently, DFID's ability to assist in reducing poverty in middle-income countries is linked almost exclusively to its support for multilateral organisations, including the World Bank. This was borne out in a recent Written Statement announcing that DFID would increase its financial support to Latin America by 15% to almost £100 million by 2010-11, where the Secretary of State said that "our finance and influence over the Bank […] will continue to be central to our support to the region".[128]

97. DFID's capacity to have an impact in middle-income countries, where it has little or no bilateral reach, has been an issue during this inquiry. We have also discussed more broadly the influence on national poverty reduction strategies that Official Development Assistance

126 Q 183 [Baroness Vadera]

127 Centre for Global Development, *From World Bank to World Development Cooperative*, October 2007

128 HC Deb, 24 January 2008, col 60WS

(ODA) and other grants to middle-income countries afford. ActionAid told us that "most Non-Governmental Organisations think that the 90/10 split is appropriate for DFID".[129] While we broadly agree that the 90/10 split is appropriate, significant inequality and poverty persists in middle-income countries. We therefore sought to establish what influence DFID had on World Bank policy and action in such countries.

98. The case of Latin America could be held to be representative of the sort of middle-income countries that have seen a decrease in DFID attention as a consequence of the 90/10 split. DFID's 2004-2007 Regional Assistance Plan for Latin America says:

> "As our own resources are limited, our overall impact will be maximised if we use our resources to support change and enhance the effectiveness of these much larger organisations [the World Bank and the Inter-American Development Bank] in specific areas."[130]

The Written Statement on 24 January adds:

> "We will maintain our office in Brazil, with a focus on climate change and Brazil's role in global development. At the same time, we will close our offices in Nicaragua and Bolivia, which will not be needed to deliver our new regional programme. We will continue to strengthen and monitor the operations of the World Bank [… and other multilaterals] in Latin America through our representatives in Washington and Brussels and staff in the UK."[131]

99. During 2007, CARE International conducted research with civil society organisations in Latin America on the implications of DFID co-operation with the World Bank and other multilaterals in the region, the results of which have been published.[132] This report says that there was little evidence on the ground of DFID influence over the World Bank:

> "Based on what little knowledge [local partner organisations have, they] believed the influence that DFID had managed to exert on these huge institutions was minimal. […] In Brazil, even DFID personnel had difficulty in identifying any impact DFID had had on these institutions there."[133]

CARE goes on to recommend that DFID,

> "bases its decision to continue with its strategy of contributing funds to the World Bank and the Inter-American Development Bank on demonstrable evidence that it is managing to influence these institutions."[134]

129 Q 96 [Ms Greenhill]

130 DFID, *Latin America Regional Assistance Plan 2004–2007*, 2004, paragraph D3

131 HC Deb, 24 January 2008, col 60WS

132 CARE International, *Shifting Ground: Implications of international cooperation for civil society organisations in Latin America 2000–07 with specific reference to DFID*, 2007

133 CARE International, *Shifting Ground: Implications of international cooperation for civil society organisations in Latin America 2000–07 with specific reference to DFID*, 2007, p 9

134 *Ibid.*

100. During our visit to Washington and throughout this inquiry, it was clear to us that the UK's interaction with the World Bank is focused to a very significant degree on Africa and other areas in which the UK has a strong presence. On this point, the Minister said:

> "We have a depth of expertise and experience and operations in low income countries that makes us a more natural partner in low income countries with the World Bank and we do not have, for example, huge operations in certain parts of the world, in Latin America, for example, that would make us a natural partner, and that might give us some disadvantage.[135]

101. **DFID has little or no bilateral reach in middle-income countries. It relies almost entirely on multilateral organisations, including to a large degree the World Bank, to extend its reach into these regions. We believe that it is important, therefore, that DFID and the Executive Director's office are fully engaged with World Bank policy in these regions as well as where the UK is a natural partner, such as Africa. This will become even more crucial as the Bank's relationship with these countries continues to evolve away from traditional lending. We recommend that, in allocating the new adviser portfolios that we have recommended should be taken up, DFID ensure that sufficient resources are available in Washington to make good on its promises to influence and monitor as well as finance Bank operations in middle-income countries.**

The World Bank as a "Bank for the environment"

102. Climate change is by definition a global challenge but it is a particularly acute one for developing countries. The United Nations Human Development Report 2007–08 warns about the effects of climate change, calling it "the defining human development issue of our generation" and that it is "a massive threat to human development and in some places it is already undermining the international community's efforts to reduce extreme poverty".[136] The report goes on to say:

> "Development progress is increasingly going to be hindered by climate change. So we must see the fight against poverty and the fight against the effects of climate change as interrelated efforts. They must reinforce each other and success must be achieved on both fronts jointly."[137]

A recent World Bank report on climate change says: "The poorest countries and communities are likely to suffer the most because of their geographical location, low incomes, and low institutional capacity, as well as their greater reliance on climate-sensitive sectors like agriculture."[138] In its evidence to us, Christian Aid spoke about an environmental "triple crisis" for developing countries in terms of: the poverty they face; their front-line vulnerability to the impact of climate change; and the threat to their

135 Q 186 [Baroness Vadera]

136 United Nations Development Programme, *Human Development Report 2007–08*, November 2007, Summary (hdr.undp.org)

137 *Ibid*.

138 World Bank, *IDA and Climate Change: Making Climate Action Work for Development*, October 2007, Executive Summary

development posed by the likely solutions.[139] It is against this backdrop that we examine in this section of the Report the role of the World Bank in global action on climate change.

The World Bank and climate change today

103. In his Mansion House speech on 12 November 2007, the Prime Minister said: "while we strengthen the World Bank's focus on poverty reduction, it must also become a bank for the environment."[140] This is a view he has promoted in each of his major interventions on the future of the Bank, including most recently in India and at the World Economic Forum in Davos.[141] At Davos, he is reported as saying: "I cannot see why we do not move immediately for the World Bank to become a world environment bank".[142]

104. DFID evidence in this inquiry says:

> "On climate change the Bank has a key role to play in terms of financing, analytical work and its convening power […]. The Bank is uniquely placed to challenge the richer countries to act […] and to help developing countries to play their part".[143]

However, other evidence received in this inquiry queries whether the World Bank is, in fact, the appropriate institution for the role of a 'bank for the environment' and whether Bank policies in this area are consistent with DFID priorities. A joint submission by a number of non-governmental organisations says, for example, in connection with Bank work in the energy sector:[144]

> "Despite assertions in its white paper *Eliminating world poverty: making governance work for the poor* that "the UK is working for international agreement on urgent action to prevent dangerous climate change", the UK Government [… through its support for some Bank energy programmes] is undermining its own efforts to reduce greenhouse gas emissions."[145]

We pursue the specific sensitivities linked to the Bank's energy work later in this chapter.

105. We were keen to establish what impact a reorientation along the lines supported by the Prime Minister would have on the Bank's work on poverty and growth. During our visit to Washington, President Zoellick recognised the potential tension between maintaining the Bank's focus on overcoming poverty and its emerging remit in climate change.[146] In the course of the negotiations on the replenishment of the International Development Association (IDA), the World Bank produced a report on IDA and climate change which concludes that:

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139 Q 57 [Mr Pendleton]

140 Speech by the Prime Minister at the Lord Mayor's Banquet, London, 12 November 2007 (pm.gov.uk)

141 Speech by the Prime Minister at the Chamber of Commerce, Delhi, 21 January 2008 (pm.gov.uk) and remarks at World Economic Forum 2008, Davos

142 "Brown says radical changes needed to IMF and World Bank", The Independent, 26 January 2008

143 Ev 54

144 Ev 68 [Greenpeace UK, Christian Aid, Bretton Woods Project, People and Planet, and Practical Action]

145 *Ibid*.

146 Annex 1

> "In the face of climate change, IDA's core mandate must continue to be growth and poverty reduction. Growth and poverty reduction allow more diversified economies which are inherently less vulnerable to climate change. But there will be climate investments that are compatible with this core mandate."[147]

Commenting on the balance between a focus on poverty and on climate change, the Minister told us:

> "Development is about the environment. I really cannot see any way that they are not about the same thing. […] At the end of it we need a bank, we need a financing institution; because it is a global problem we need a financing institution that has a global reach [… and] that does development."[148]

106. **Climate change is a global challenge but there is convincing evidence that it is a particularly acute one for developing countries. We believe that it is right that the World Bank, a leader in international development, integrates action on climate change into its overall programme of work. However, we would caution against too literal an interpretation of the Prime Minister's assertion that the Bank should become an 'environment bank' as this could compromise its overriding poverty reduction objectives. The urgency of climate change does not lessen the blight of poverty. The Bank is central to international efforts to meet the Millennium Development Goals. This becomes increasingly urgent as the 2015 deadline for the Goals approaches and the Bank and its current resources which were provided for combating poverty must not be diverted from that task. Moreover, fulfilment of this development remit would have a positive impact on environmental objectives because developed countries are less vulnerable to climate change. We recommend that the UK ensure that the World Bank Board monitor and, where necessary, correct the Bank's strategic direction to ensure that its core development and poverty mandate is not overshadowed. If the Bank is to adopt an additional role as an environment bank it must raise additional funds for this purpose.**

Funding for adaptation and mitigation

107. During our visit to Washington, we heard from both President Zoellick and the Vice-President for Sustainable Development, Katherine Sierra, that the Bank's focus had been predominantly on mitigation rather than adaptation work and that adaptation would need greater attention going forward.[149] Adaptation to climate change refers to attempts to lessen the vulnerabilities of the earth and its population to the negative effects of global warming. This is in contrast to mitigation which involves actions meant to reduce emissions or the causes of climate change. The United Nations Framework Convention on Climate Change (UNFCCC) estimates that the additional flows of investment and finance that may be needed by 2030 to enable developing countries to adapt to the impact of climate change is in the region of tens of billions of dollars annually but could be more than $100 billion a year.[150] The Government's review of the economic impact of climate

147 World Bank, *IDA and Climate Change: Making Climate Action Work for Development*, October 2007

148 Q 179

149 Annex 1

150 UNFCCC, *Climate Change: Impacts, Vulnerabilities and Adaptation in Developing Countries*, 2007

change concluded that the costs incurred through action on climate change now would be less than the costs associated with carrying on with 'business as usual'.[151] So although the sums involved in acting are large, they are the better investment in the long term.

108. The funding mechanisms and structures for adaptation to climate change are still maturing. During our meeting, Mr Zoellick told us that it was important to establish the right international financing arrangements for climate change. He said that he was co-ordinating with the senior management of the Global Environment Facility (GEF) on the need for an approach which could integrate or co-ordinate the various funds in this area.

109. The Global Environment Facility (GEF) operates under the aegis of the World Bank, the United Nations Development Programme, and the United Nations Environment Programme. It is a central component of the international financing arrangements in place to tackle climate change. Based on guidance from the UNFCCC, the GEF operates three funds which are financed through donor commitments: the GEF Trust Fund; the Special Climate Change Fund; and the Least Developed Country Fund. A further fund, the Adaptation Fund, is yet to be made operational. It will be raised as a 2% levy on proceeds from Clean Development Mechanism projects and is projected by the World Bank to raise \$100-500 million by 2012.[152] As well as these funds, there are also new multilateral environmental agreements and new bilateral and multilateral funding from governments and multilateral organisations.

110. A report by the UNFCCC commented on the existing funding arrangements:

> "Financial ways and means must be found to enable developing countries to enhance their efforts to adapt. […] Accessing the funds which are available at present [is] complex and lengthy. Even if this process was streamlined, a lot more funding would still be required for adaptation."[153]

The Bank's report on IDA and climate change notes that there are "multiple stakeholders" in the current "climate change aid architecture", including GEF, UN agencies, the private sector and other multilateral development banks.[154] The report goes on to say that "harmonising adaptation efforts" and "a clear division of labour" will be crucial going forward.[155] It sets out in some detail the 12 existing Bank-managed Trust Funds for climate change. WWF told us that around nine new bilateral funds on climate change had been launched in the past year.[156]

111. At the 2005 Gleneagles Group of Eight (G8) Summit, the World Bank and the regional development banks agreed to work together on a new framework for accelerating investment in cleaner energy in developing countries. The Bank's Vice-President for Sustainable Development told us that most of the analytical work had been done or was in

151 HM Treasury, *Stern Review on the Economics of Climate Change*, 2007 (www.hm-treasury.gov.uk)

152 The Clean Development Mechanism allows developing countries to generate reductions in greenhouse gas emissions and accrue emission reduction credits.

153 UNFCCC, *Climate Change: Impacts, Vulnerabilities and Adaptation in Developing Countries*, 2007

154 World Bank, *IDA and Climate Change: Making Climate Action Work for Development*, October 2007

155 *Ibid*.

156 Q 92 [Ms Craeynest]

train for the Clean Energy Investment Framework (CEIF).[157] The Minister told us about UK plans for providing financing for the Framework:

> "Something that I think could be really very major […] is the creation of, I am sorry to say, a Trust Fund around climate change. As you know, we have committed money for an international window of the Environmental Transformation Fund, which is £800 million and we think that it would be a very good idea to work with the Bank and through the Bank because it would leverage other donors. [… The Fund] would focus on issues around adaptation and forestry as well as energy and low carbon energy growth."[158]

We understand that the Bank would act as a trustee rather than as policy lead for this Fund, but we have not been provided with any detail about how the Fund might operate or how it will ensure a clear division of labour in relation to other funds. WWF UK commented on the proposed new Fund:

> "We are concerned that this potentially could set up mechanisms which conflict with internationally agreed mechanisms to deal with environment, such as the GEF, for example, which is agreed by international treaties and conventions. So, there are quite a number of concerns in terms of coherence and co-ordination and so far we have not seen evidence that this has been appropriately addressed yet."[159]

112. The International Finance Facility (IFF) is a UK initiative to frontload aid by issuing bonds on global capital markets against future aid flows. On the applicability of such a principle to the proposed new Fund to support the CEIF, the Minister told us:

> "Climate change is the classic case for frontloading. I think this has been influenced by the success of the International Finance Facility for Immunisation and the concept of the International Finance Facility. The climate change fund […] actually has some of these principles in it […] What we need to do is to find a mechanism where we are working, using the public finance bit to subsidise, if needed, to leverage some of the private sector. […] It may not look quite like the IFF for climate change but it will have a lot of those leverage principles."[160]

Commenting on the possibility of an IFF initiative to finance climate change work, Rainforest Foundation UK said that such frontloading of aid raised problems of absorption capacity in developing countries.[161] Christian Aid told us that they had a concern that debt built up would have to be repaid at some point, so constraining future aid decisions.[162]

113. **Funding for climate change work introduces two key problems: raising the huge sums of money needed; and ensuring that mechanisms are streamlined and funding is well-coordinated. The World Bank has a role to play in developing solutions to both**

157 Annex 1

158 Q 178

159 Q 92 [Ms Craeynest]

160 Q 182

161 Q 93 [Mr Counsell]

162 Q 93 [Mr Pendleton]

problems. As a bank, it should help to leverage the money needed and, as a leader in development, it should help to marshal funds and stakeholders. The urgency of the challenge of climate change has triggered a proliferation of bilateral and multilateral funds. We believe that building on the mechanisms already in place is crucial, particularly the Global Environment Facility which operates under the joint aegis of the World Bank and the UN. We would urge the Bank to make this a priority to ensure effective and efficient co-ordinated action.

114. **We welcome the UK's commitment of £800 million to international work on climate change through the Environmental Transformation Fund. Although preparatory work is well-advanced, we are sceptical that creating a new Trust Fund in addition to the dozen or so that already exist within the Bank for such work is the best way forward for this money. It may be that new arrangements are needed but we have not seen evidence which makes explicit the case for them. We recommend that DFID conduct an audit of the current bilateral and multilateral funds available for international climate change work and share this with us before final decisions are taken.**

The World Bank and the energy sector

115. One of the most contentious areas of World Bank work, in terms of environmental impact, is its work in the energy sector and other extractives, where the Bank has a large investment programme. A joint submission to us from a number of NGOs says that the Bank's investment in the energy sector increased from $2.8 billion in 2005 to $4.4 billion in 2006 (a 60% increase) and that, of this total, "oil, gas and power sector commitments account for 77% of the total energy sector programme while 'new renewables' account for only 5%."[163] World Bank figures, as set out by DFID, suggest a more positive picture:

> "A recent Bank report showed that in 2006 financing of renewable energy and energy efficiency projects rose by 45%, to a total of £359 million, far exceeding the 20% annual increase target set in 2004."[164]

The joint submission queries this increase and argues that the Bank reaches this figure by including within its definition of "new renewables" programmes and projects which are environmentally damaging, such as large hydropower projects.[165] WWF UK said:

> "Only just over a third of the financing defined [by the Bank] as 'low-carbon' in 2005 and 2006 was on new renewable energy and energy efficiency. The renewable energy options are zero carbon emitters, but receive far less investment."[166]

116. During our visit to Washington, the World Bank told us that 70% of current investment in the energy sector through the International Finance Corporation was spent on gas, as opposed to oil or coal, and the majority of that energy was used for domestic consumption. In our evidence session specifically on climate change, we discussed the

163 Ev 69

164 DFID, *The UK and the World Bank 2006/2007*, 2007, page 20

165 Ev 68

166 Ev 124

implications of this trend with relevant non-governmental organisations and whether renewable alternatives were viable in terms of cost and scale. Christian Aid argued that renewable energy initiatives which had so far been relatively small scale—such as composting and solar lighting—could be scaled up and offered considerable "co-benefits".[167] WWF UK said:

> "The World Bank's funding of cheap loans is in effect a subsidy. What we really need to do is shift the subsidy systems in favour of new renewables and away from fossil fuels. […] It is a double whammy for poor people. They are being lined up for being the worst victims [of climate change] in 50 years' time and at the same time they are not getting the energy because the energy systems continue to be centralised […]. It is a difficult question but what we are arguing is that the World Bank should take a lead in helping to shift the global energy provision system and making it more financially viable to invest in new renewables."[168]

In the Bank's report on IDA and climate change, it notes that while IDA's focus going forward would be on adaptation work:

> "For climate mitigation the question of IDA's role is more complex. Some projects (reforestation, or improving land management, for example) may yield competitive net benefits while simultaneously reducing greenhouse gas emissions. Other projects, such as 'clean' energy investments, may yield lower net benefits compared with 'traditional' energy projects—in these cases, however, a subsidy provided by carbon finance may make the clean project competitive with the traditional one."[169]

The Minister commented on some of the evidence we had received which argued against Bank support for extractive industries and in particular the suggestion:

> "that somehow the Bank should not be funding any form of fossil energy for developing countries, which I think is not the most just way of conducting ourselves because, quite frankly, it is their choice; they will have their obligations under the international treaties and we cannot deny them this right. In certain countries, for example in Malawi, the market has been coal but 80% of people are without electricity; are we going to turn around to them and say, 'You cannot have this', or 'By the way, we can but you cannot'?"[170]

117. **Emissions from extractive industries are major contributors to climate change which, as we have set out, has a disproportionate impact on developing countries. The Bank is right to take a pragmatic line, supporting energy investments which provide essential services to poor people. But, given the urgency of the climate change challenge, such investments should examine all viable options and favour where practicable the environmentally cleanest option. This will entail a greater weight of subsidies for clean, renewable energy and less for extractive industries and this rebalancing should be happening at a faster rate than is currently the case. We**

167 Qq 68–70

168 Q 73 [Ms Craeynest]

169 World Bank, *IDA and Climate Change: Making Climate Action Work for Development*, October 2007

170 Q 178

recommend DFID lead the Board towards using the Bank's substantial resources and leverage to make investment in renewables more financially viable.

7 Conclusion

118. After years of steep increases, DFID is today the largest national contributor to the International Development Association, the concessional lending arm of the World Bank, and to World Bank Trust Funds. With these larger contributions comes greater responsibility. DFID must ensure that its oversight of the Bank in London, Washington and in the field is comprehensive and unrivalled.

119. **DFID's clarity of purpose and effectiveness have set the standard for many bilateral development agencies. It must now aim to do the same for multilateral organisations, particularly the World Bank. In this inquiry, we have seen that DFID's influence is already being felt. Given the urgency of the effort on poverty and the scale of the sums entrusted to the Bank to contribute to that effort, DFID must demonstrate not only excellent partnership skills but equally good leadership skills in its future relationship with the World Bank.**

Recommendations

UK contribution to the International Development Association

1. An effective World Bank is a vital component in the international development system and we welcome DFID's focus on its effectiveness. We note, however, that effectiveness can be assessed at many levels, including organisational, development impact and strategic. We therefore caution the Secretary of State and his team against making bold statements that the World Bank is the most effective multilateral development institution without appropriate qualification. It will only be truly effective from DFID's point of view if it does what DFID wants it to do—if it is operationally effective as well as organisationally effective. In our view, DFID should concentrate its efforts on assessing the Bank's operational effectiveness in terms of development impact, rather than just its organisational effectiveness, in order to justify the large increases in its funding to the World Bank. We were encouraged to learn about the drive within the World Bank to monitor and analyse results and to make public this work. We would urge the Bank to make this work a priority. (Paragraph 22)

2. We welcome DFID's decision to increase its contribution to the World Bank's International Development Association but we believe that it did so with insufficient rigour. In developing its strategic approach to the funding levels, it is right that during the negotiations DFID assessed both the Bank's effectiveness and its responsiveness to DFID's own priorities for the Bank. We look forward to examining the Deputies' Report for evidence of DFID's influence on the negotiations. An explanation of the strategic approach is not, however, the same as an explanation of the mechanics of the decision itself. The Minister's assertion that a 49% increase in the commitment was in line with the increase in DFID's overall budget appears to suggest that the increase was largely mechanical. Without a transparent account of how the increase was decided, we have no evidence to challenge that suggestion. We would have liked to have seen a robust analysis showing that an additional £700 million allocated to IDA would do more to meet DFID's objectives than using the same amount of money for funding another multilateral agency or for bilateral development work. We recommend that DFID publish, alongside the Deputies' Report in spring 2008, a full account of how the increase of £700 million was calculated. Given the very large sums involved, we further recommend that DFID ensure that, as well as conducting a new assessment of the Bank's organisational effectiveness, a full review of the World Bank's development impact is conducted and published before the next IDA replenishment round is launched. (Paragraph 25)

Alignment of policy priorities

3. It is crucial that each of DFID's spending decisions is linked to the eradication of poverty and attainment of the Millennium Development Goals, irrespective of the way in which the money is channelled. Early and robust assessments of the impact of any proposed course of action on poverty is an effective safeguard against bad spending decisions. We believe strongly that more consistent and transparent use of

impact assessments by the World Bank across all of its lending is the single most important change in Bank practice that DFID should be pursuing. We were therefore disappointed to learn that this matter had disappeared from DFID's annual publication on the World Bank as the result of an apparent oversight. We recommend that DFID renew its commitment to this safeguard and press for impact assessments by the World Bank which: are rigorous and systematic; enhance borrower country capacity to assess the World Bank's impact; and examine a range of alternative courses of action to find the option that has most benefit for the poor. Such assessments should be published and circulated within civil society in the borrower countries. We recommend that DFID also encourage greater World Bank focus on the issue of incentives for staff to integrate such full impact assessments into their work. Given the strength of our view on this issue, we further recommend that this position is reflected in all DFID's budget discussions with the World Bank and that consideration should be given to taking any lack of progress into account in future funding rounds. (Paragraph 33)

4. Conditionality remains a contentious issue for many civil society commentators. We have not been persuaded that the World Bank is pursuing an aggressive policy of imposing burdensome, sensitive policy reform conditions on borrower countries, although we accept that there are some cases where this has happened in the past. We do however share some of the concerns expressed to us about ownership of the development process by developing countries. There are no short-cuts in development. World Bank diktat is no substitute for thorough debate and engagement of parliaments and other stakeholders by the borrower country government. It is only by this latter means that a resilient development programme with broad domestic support can be achieved. We recommend that the UK Government develop, with like-minded countries including borrower nations, a proposal for independent monitoring of World Bank conditionality to ensure that all the Good Practice Principles, especially ownership, and dialogue with parliaments are fully reflected in World Bank practice. (Paragraph 42)

5. We believe that the Millennium Development Goals will never be achieved if women's empowerment is not central to development efforts. The World Bank's action plan on gender, launched last year, was overdue. Strategic commitments and associated actions on economic empowerment of women may, if based around the clear principles of women's rights, provide sufficient scope to hold the Bank to account across the range of its activities. We recommend that the Government assess now how it can best support and improve the plan, and contribute to its mid-term and final assessments, and that it share with us a timed outline of this UK strategy. (Paragraph 46)

6. We endorse DFID's practical support for the Bank's decentralisation initiatives, especially in Africa, and recommend that DFID continue to build up its advisory and knowledge-sharing role in this area. (Paragraph 48)

7. We welcome the priority that DFID has given to securing greater focus by the World Bank on country-level effectiveness and fragile states. As a result of the prominence of these themes in the International Development Association negotiations, we look forward to more intensive World Bank activity in both these areas of work. DFID

must recognise, however, that changes in the focus of the World Bank may need to have a consequent impact on DFID's own resources. We recommend that DFID reassess its staffing arrangements and analytical capacity in both these areas of work to ensure that it can carry out satisfactory oversight of the Bank. (Paragraph 52)

Staffing

8. We support the Secretary of State's decision to appoint a full-time UK Executive Director to the World Bank. It is appropriate recognition of the need for UK oversight of the Bank to be as well-resourced and comprehensive as that of other delegations, if not more so given the UK's role as the largest bilateral contributor to the International Development Association. We are glad that the Secretary of State listened to our representations about this matter and take some satisfaction from the part that we appear to have played in changing the policy, especially given the surprisingly vigorous defence of the shared directorship provided to us by the UK delegation. We recommend that DFID take up all adviser slots available to it in Washington—the UK cannot afford to be under-resourced at a time when its oversight of and influence over the World Bank must be as strong as possible. (Paragraph 58)

Trust Funds

9. On current trends, UK funding for World Bank-managed Trust Funds will soon match UK funding for the International Development Association. Some of these Funds are largely autonomous institutions with which DFID will need to engage directly to influence policies. For those for which the World Bank is both financial agent and policy lead, DFID is right to provide support if such Funds can add value to the work done by the Bank's major institutions and reduce the burden on borrower countries. We are concerned however that any further proliferation of Funds could distract World Bank shareholders from the key challenges ahead with regard to its main institutions, such as ensuring IDA effectiveness and progress on governance reforms. We recommend DFID resist proposals to set up any further Funds or where it supports such proposals—for example on climate change—provide us in advance with the rationale for its support. (Paragraph 63)

Governance and accountability

10. Adequate representation of developing nations in World Bank decision-making is not only a question of fairness, it is one of effectiveness: we believe greater ownership and buy-in by developing countries will lead to more effective Bank programmes. The Government has been better at setting out this argument than at developing a solution to the problem. As we have stated, the UK has a responsibility as a leading nation at the Bank to act decisively on these issues. (Paragraph 70)

11. We believe that double majority voting has some merit and is worthy of serious study by DFID. We recognise, however, the difficulties of securing any reform to the voting arrangements: the Bank is run as a shareholder organisation and donors are unlikely to wish to cede large amounts of power. While votes are important, the outcome of any renegotiation is unlikely, in our view, to deliver more than minor changes. The UK should therefore prioritise action on practical and immediate changes which can help to rebalance the Board to give developing countries a greater voice. In our view, the most critical Board reform issue is the representation of African countries and the capacity of these delegations. As a priority region for the World Bank and the continent facing the biggest challenge in terms of the Millennium Development Goals, Africa should have at least one more Executive Director on the Board. We recommend that DFID pursue this objective as a priority and separately from any broader reform deal. Moreover, given that the Trust Fund set up to support African Executive Directors is not delivering the desired results, we recommend that the UK urgently propose a new method, and consider providing new and additional money, for developing greater capacity in these delegations. (Paragraph 71)

12. There is a broad consensus that selection of the President of the World Bank, one of the most influential figures in international development, should be transparent and based on merit, rather than in the gift of the United States. The Government supports this position and made some effort to change the system during the selection of President Zoellick. We recommend that DFID initiate work now towards agreeing an open and merit-based process for selecting his successor. Such a strategy would need to include giving up Europe's monopoly on the post of Managing Director of the International Monetary Fund. The UK should use its role as the largest contributor to the International Development Association and its related increased leverage in Washington to bring about such a 'grand bargain'. DFID should ensure that, as part of the review of the selection process, systems are put in place to evaluate the performance of the President during his or her tenure. (Paragraph 75)

13. The World Bank argues that its founding articles restrict its ability to engage with political actors beyond governments. The Bank has, however, made some efforts to engage with and consult parliaments and civil society on some policy and operational matters with mixed success. We believe such engagement is particularly important in borrower nations where it has the potential to bring about national debate and ownership, which could significantly enhance World Bank performance as well as strengthening accountability in those countries. We recommend that DFID encourage the World Bank to adopt outreach strategies with parliaments and civil society consistently across its programmes, especially with borrower countries. (Paragraph 81)

14. Parliaments have a central role in overseeing government expenditure of national budgets. Those elements of national budgets which are donations to the Bank or assistance from it should fall within that oversight. In our view, it follows that the Bank should make itself available to provide formal evidence and information directly to parliaments to complement that provided by governments, as other multilateral organisations such as the United Nations do. We recommend that DFID ensure that the Bank's policy of refusing to appear formally before parliamentary bodies is discussed at the Board of Directors within six months; that it push for a change in the policy; and that it report back to us on those discussions. (Paragraph 82)

15. The Parliamentary Network of the World Bank plays an important role in the Bank's relations with parliamentarians. It receives help in cash and kind from the World Bank but we believe that it would be more effective and more independent if it had a larger secretariat of its own. We ask DFID to consider how it and other donors could provide funding for a larger PNoWB secretariat and for its outreach activities with parliamentarians, especially in developing countries. (Paragraph 83)

16. Given the priority the Prime Minister and the Secretary of State attach to World Bank reform, it is perplexing that British advocacy of that agenda in Washington is not more high-profile. We assume that not all of DFID's work on this issue is in the public eye—nor should it be. Advocacy does require some public position-taking, however, and we recommend that the Government do so more consistently in Washington. (Paragraph 87)

17. We accept the Minister's view that developing countries must also advance a view on reform issues. We reject, however, the implication that the UK should wait until they do so. As a major shareholder and contributor to the World Bank, the UK has a distinct leadership role. The UK must not only articulate a vision for reform of the World Bank but it must pursue this with vigour, building alliances with borrower countries and with other like-minded donors in and outside the European Union. (Paragraph 88)

The World Bank as a 'knowledge bank'

18. The World Bank has come to occupy the role of foremost source of international development knowledge, advice and analysis. Development will not succeed through lending alone and we support the Bank's efforts to ensure that it provides intellectual added value to its lending. The Bank's analysis influences decisions across the development community, including DFID's own decisions. DFID must, therefore, be confident that the Bank's knowledge is credible in the way it is both created and shared. We recommend that DFID work closely with the Bank to ensure that its role as a 'knowledge bank' is demonstrably neutral and flexible, providing well-argued menus of best practice options for effective development. This is long-term work and we look forward to a detailed explanation of it in DFID's next and subsequent annual reports on the UK and the World Bank. (Paragraph 93)

19. The World Bank's historical financing model whereby interest on loans is a means of compensating the Bank for its advice is sustainable as long as developing countries are willing to accept the arrangement. We see some merit, however, in the World Bank assessing other, more flexible options for financing its services as a knowledge bank. Separating loans from advice might be a more practical way forward than reliance on an old financing model. We believe a plan which allows different income groups to pay for services according to a sliding scale of discounts is one which deserves further feasibility study and we urge DFID to pursue with the Bank's management strategic work on this and other alternatives for unbundling loans and advice. (Paragraph 95)

20. DFID has little or no bilateral reach in middle-income countries. It relies almost entirely on multilateral organisations, including to a large degree the World Bank, to

extend its reach into these regions. We believe that it is important, therefore, that DFID and the Executive Director's office are fully engaged with World Bank policy in these regions as well as where the UK is a natural partner, such as Africa. This will become even more crucial as the Bank's relationship with these countries continues to evolve away from traditional lending. We recommend that, in allocating the new adviser portfolios that we have recommended should be taken up, DFID ensure that sufficient resources are available in Washington to make good on its promises to influence and monitor as well as finance Bank operations in middle-income countries. (Paragraph 101)

The World Bank as a "Bank for the environment"

21. Climate change is a global challenge but there is convincing evidence that it is a particularly acute one for developing countries. We believe that it is right that the World Bank, a leader in international development, integrates action on climate change into its overall programme of work. However, we would caution against too literal an interpretation of the Prime Minister's assertion that the Bank should become an 'environment bank' as this could compromise its overriding poverty reduction objectives. The urgency of climate change does not lessen the blight of poverty. The Bank is central to international efforts to meet the Millennium Development Goals. This becomes increasingly urgent as the 2015 deadline for the Goals approaches and the Bank and its current resources which were provided for combating poverty must not be diverted from that task. Moreover, fulfilment of this development remit would have a positive impact on environmental objectives because developed countries are less vulnerable to climate change. We recommend that the UK ensure that the World Bank Board monitor and, where necessary, correct the Bank's strategic direction to ensure that its core development and poverty mandate is not overshadowed. If the Bank is to adopt an additional role as an environment bank it must raise additional funds for this purpose. (Paragraph 106)

22. Funding for climate change work introduces two key problems: raising the huge sums of money needed; and ensuring that mechanisms are streamlined and funding is well-coordinated. The World Bank has a role to play in developing solutions to both problems. As a bank, it should help to leverage the money needed and, as a leader in development, it should help to marshal funds and stakeholders. The urgency of the challenge of climate change has triggered a proliferation of bilateral and multilateral funds. We believe that building on the mechanisms already in place is crucial, particularly the Global Environment Facility which operates under the joint aegis of the World Bank and the UN. We would urge the Bank to make this a priority to ensure effective and efficient co-ordinated action. (Paragraph 113)

23. We welcome the UK's commitment of £800 million to international work on climate change through the Environmental Transformation Fund. Although preparatory work is well-advanced, we are sceptical that creating a new Trust Fund in addition to the dozen or so that already exist within the Bank for such work is the best way forward for this money. It may be that new arrangements are needed but we have not seen evidence which makes explicit the case for them. We recommend that DFID conduct an audit of the current bilateral and multilateral funds available for international climate change work and share this with us before final decisions are taken. (Paragraph 114)

24. Emissions from extractive industries are major contributors to climate change which, as we have set out, has a disproportionate impact on developing countries. The Bank is right to take a pragmatic line, supporting energy investments which provide essential services to poor people. But, given the urgency of the climate change challenge, such investments should examine all viable options and favour where practicable the environmentally cleanest option. This will entail a greater weight of subsidies for clean, renewable energy and less for extractive industries and this rebalancing should be happening at a faster rate than is currently the case. We recommend DFID lead the Board towards using the Bank's substantial resources and leverage to make investment in renewables more financially viable. (Paragraph 117)

Conclusion

25. DFID's clarity of purpose and effectiveness have set the standard for many bilateral development agencies. It must now aim to do the same for multilateral organisations, particularly the World Bank. In this inquiry, we have seen that DFID's influence is already being felt. Given the urgency of the effort on poverty and the scale of the sums entrusted to the Bank to contribute to that effort, DFID must demonstrate not only excellent partnership skills but equally good leadership skills in its future relationship with the World Bank. (Paragraph 119)

Annex 1: Summary record of meetings with the World Bank's senior management

Meeting with Robert Zoellick, President of the World Bank, 28 November 2007

Vision: President Zoellick said that in some ways the idea of the World Bank as a bank was misleading. It was an institution which needed to: apply the knowledge it already had effectively; leverage its impact through markets and other institutions; and ensure the best use of money available to it to achieve the desired development outcomes.

Relations with parliaments: Zoellick welcomed the Committee's engagement with the Bank. In the context of the Bank's broader legitimacy, Zoellick said that he was keen to do more with parliaments. The Parliamentary Network of the World Bank (PNoWB) offered one avenue. Zoellick was looking at ways of supporting PNoWB without undermining its independence. In borrower countries, parliaments played an important role in supporting transparent systems.

UK influence: Zoellick said that the UK had a very strong influence at the Bank. This was due not just to the financial commitments but to a willingness to engage with the Bank intellectually both on the ground and in Washington. The UK delegation in Washington were influential both with other delegations and with World Bank staff. Zoellick said that if he were to have to pick delegations with institutional influence, beyond their voting weights, the UK would be at the top of the list. DFID had both bilateral global reach and could leverage the multilaterals to complement that reach. While Zoellick said that he was not competent to comment on whether the UK needed a full-time Executive Director at the Bank, he said that he saw there was benefit in taking an integrated approach to World Bank/IMF issues.

Conditionality: The current direction of the World Bank on the issue of conditionality was to build on what both common sense and experience had shown: that development does not work without borrower country buy-in. The default position today was that conditions were developed in tandem with developing countries and often at their behest to support domestic reforms, as with the case of anti-corruption conditions in Indonesia. Conditions had a particular bridging role where country systems were not yet sufficiently robust. But the old, perceived model of Bank-imposed conditions had given way to conditions which emerged from dialogue.

Poverty and Social Impact Analysis (PSIA): PSIAs were developed for most of the development projects. For investment projects it depended on the nature of the project. Zoellick wished to support a greater role for local governance institutions in this process in order to build their capacity and support in-country networks.

Climate change: Zoellick recognised the potential tension between maintaining the Bank's focus on overcoming poverty and its emerging remit in climate change. Borrower nations had raised concerns with him that funds currently committed to poverty could be diverted to tackle climate change or that growth rates could be constrained by pressure to address climate-related issues. The forthcoming Bali meeting presented an opportunity to launch a dialogue with developing countries. Much attention had been given to mitigation but Zoellick thought that adaptation would need to be addressed more intensively. The Bank's role here was to: draw attention to the role of developing countries in this work; come up with innovative and concessional financing options; support the evolution of effective carbon markets; ensure that technological advances were spread to the developing world; facilitate appropriate private investment, including through the International Finance Corporation; and develop knowledge and best practice. If the Bank were able to do all of these it would be in a position to inform and support the international negotiations to develop a climate change regime. The right financing architecture would be important. Zoellick was coordinating with Global Environment Facility senior management on the need for a framework which could integrate or coordinate the proliferation of funds in this area.

Fragile states: Zoellick said that developing thinking and analysis in this area was a priority. So far the analytical work had been modest. He wished to draw together the thinking of key intellectuals, such as Paul Collier, and institutions, such as NATO and RAND Corporation.

Middle and low income countries: The Bank's model for engagement with middle income countries was evolving. In reality, many middle income countries came to the Bank for knowledge transfer rather than lending. Loans were in essence simply a way of compensating the Bank for this expertise and tying the Bank closely to the loan outcomes.

Expanding the donor base for IDA: Zoellick said that it was important to bring IDA graduates into IDA as donors, not only for the financial contribution but also better to demonstrate their stake in the Bank across the board. China's attendance at the Dublin IDA meeting had been welcome. Some Gulf states were likely to increase their contributions in IDA 15. This reflected in part the priority President Zoellick had given to increased engagement with the Arab world—a priority welcomed by many oil rich countries who were aware of their own social development problems.

Meeting with Katherine Sierra, Vice President for Sustainable Development and Infrastructure, and Jeff Gutman, Vice President for Operations Policy and Country Services, World Bank, 27 November 2007

Vice-President Sierra said that the World Bank had been working for the last two years to up its game on climate change. There had been a major push post-Gleneagles, which DFID had helped to galvanise. DFID's vision of how to manage the issue had informed World Bank thinking. In these two years, much of the groundwork had been done and studies had been completed to see what the costs were and what the framework might look like. Mitigation had been a key focus of the Bank's work, but on adaptation Sierra wished to work beyond energy and power sectors to a broad-based adaptation strategy. There was also significant work to be done on financing: the GEF and current carbon financing arrangement would contribute but much larger total sums would be needed before any new arrangements took effect in 2012 and the Bank would need to help address that gap.

Vice-President Gutman said that the issue of fragile states was not one the Bank could tackle alone—partnership, harmonisation and alignment were key in this context. The

Bank and others needed the capability to act and move quickly in response to developments in these countries, particularly in post-conflict situations. Presence on the ground was key but there were staffing challenges and the Bank was looking at incentives and culture-change to ensure that it could decentralise effectively in these situations.

Meeting with Obiageli Ezekwesili, Vice President for Africa, World Bank, 28 November 2007

Vice-President Ezekwesili said that while development in Africa had not worked across the board, a third of countries had seen significant growth of around 5.5% in recent years. There was still work to be done in mineral rich countries to break the cycle of resources being a cost not a benefit to their economies. There were also countries where growth had been so slow that it had been below the rate of population growth.

The World Bank had not always done well on agriculture but there was re-structuring work underway and the Bank had focused on this sector, not least because studies showed that the impact on poverty of growth in agriculture was four times greater than that of growth in other areas. The problem had not been a lack of skills within the World Bank but simply a question of budget allocation. A focus was now being brought, however, to areas such as regulatory reform, technology, infrastructure (including irrigation), the subsistence agenda, and natural resource management. Many borrower countries were using as little as 4% of their national budget on agriculture and World Bank expertise could help to scale up support in this sector.

Post-Gleneagles, there needed to be a substantial effort to show how resources had an impact in Africa. At the strategic level, clearer frameworks were needed for what the Bank was trying to achieve and, at the project level, numbers needed to be put on the results and these needed to be published for transparency. There were some gaps in that data but these too needed to be made public.

The Bank's senior management realised that there was a clear need for decentralisation of staff from Washington to Africa. The window for reform was not always open and so staff were needed on the ground to be able to respond more quickly and appropriately to country priorities. Reforms, after all, could only succeed with recipient country buy-in.

Annex 2: Committee's visit programme to Washington DC, 26–28 November 2007

Monday 26 November 2007

Meeting with staff of the British Embassy, Washington DC, and of the Office of the UK Executive Director to the World Bank and the IMF

Meeting with the Centre for Global Development

Meeting with Ken Peel, Deputy Assistant Secretary for International Development, Finance and Debt, US Treasury

Meetings with Oxfam International, Brookings Institution, Centre for Strategic and International Studies, Centre for International Environmental Law, and International Budget Project

Meeting with staff of the Committee on Financial Services, House of Representatives, US Congress

Dinner with Executive Directors of borrower country delegations

Tuesday 27 November 2007

Meeting with the Millennium Challenge Corporation

Meeting with the Government Accountability Project

Meeting with Executive Directors of donor country delegations

Meeting with Danny Leipziger, Vice President for Poverty Reduction and Economic Management, World Bank

Meeting with Katherine Sierra, Vice President for Sustainable Development and Infrastructure, and Jeff Gutman, Vice President for Operations Policy and Country Services, World Bank

Meeting with Declan Duff, Vice President for Industry, International Finance Corporation, World Bank

Meeting with Otaviano Canuto, Vice President, Inter-American Development Bank

Wednesday 28 November 2007

Meeting with Obiageli Ezekwesili, Vice President for Africa, World Bank

Meeting with Robert Zoellick, President of the World Bank

Meeting with the G24

Meeting with Independent Evaluation Group, World Bank

Meeting with Dominique Strauss-Kahn, Managing Director, International Monetary Fund (IMF); and lunch with IMF senior management

Meeting with Philippe Le Houerou, Vice President for Concessional Finance and Global Partnerships, World Bank

Formal Minutes

The following declarations of interest relating to the inquiry were made:

13 December 2007 and 10 January 2008

Sir Robert Smith declared a pecuniary interest in relation to the inquiry as a share-holder in companies involved in extraction of natural resources, as set out in the Register of Members' Interests.

Hugh Bayley declared a non-pecuniary interest in relation to the inquiry as a member of the Executive Board of the Parliamentary Network of the World Bank.

Tuesday 26 February 2008

Members present:

Malcolm Bruce, in the Chair

John Battle	James Duddridge
Hugh Bayley	Ann McKechin
Richard Burden	Jim Sheridan
Mr Stephen Crabb	Sir Robert Smith

Draft Report (*DFID and the World Bank*), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 119 read and agreed to.

Annexes and Summary agreed to.

Resolved, That the Report be the Sixth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence reported and ordered to be published on 20 November and 13 December 2007 and 10 January 2008.

A paper was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Tuesday 4 March at 10.00 am

Witnesses

List of written evidence

List of unprinted evidence

The following written evidence has been reported to the House, but to save printing costs it has not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Parliamentary Archives, and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (tel. 020 7219 3074). Opening hours are from 9.30 am to 5.00 pm on Mondays to Fridays.

Letter to the Committee from Robert B. Zoellick, President of the World Bank (dated 14 August 2007)

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2007-08

First Report	DFID Departmental Report 2007	HC 64 (HC 329)
Second Report	Development and Trade: Cross-departmental Working	HC 68 (HC 330)
Third Report	Work of the Committee 2007	HC 255
Fourth Report	Reconstructing Afghanistan	HC 65
Fifth Report	Maternal Health	HC 66

Session 2006–07

First Report	DFID Departmental Report 2006	HC 71 (HC 328)
Second Report	HIV/AIDS: Marginalised groups and emerging epidemics	HC 46-I&II (HC 329)
Third Report	Work of the Committee in 2005–06	HC 228
Fourth Report	Development Assistance and the Occupied Palestinian Territories	HC 114-I&II (HC 430)
Fifth Report	EU Development and Trade Policies: An update	HC 271 (HC 622)
Sixth Report	Sanitation and Water	HC 126-I&II (HC 854)
Seventh report	Fair Trade and Development	HC 356-I&II (HC 1047)
Eighth report	DFID's Programme in Vietnam	HC 732 (HC 1062)
Ninth report	Prospects for sustainable peace in Uganda	HC 853 (HC 1063)
Tenth report	DFID Assistance to Burmese Internally Displaced People and Refugees on the Thai-Burma Border	HC 645-I&II (HC 1070)

Session 2005–06

First Report	Delivering the Goods: HIV/AIDS and the Provision of Anti-Retrovirals	HC 708–I&II (HC 922)
Second Report	Darfur: The killing continues	HC 657 (HC 1017)
Third Report	The WTO Hong Kong Ministerial and the Doha Development Agenda	HC 730–I&II (HC 1425)
Fourth Report	Private Sector Development	HC 921-I&II (HC 1629)
Fifth Report	Strategic Export Controls: Annual Report for 2004, Quarterly	HC 873 (Cm 6954)

	Reports for 2005, Licensing Policy and Parliamentary Scrutiny	
Sixth Report	Conflict and Development: Peacebuilding and post-conflict reconstruction	HC 923 (HC 172)
Seventh Report	Humanitarian response to natural disasters	HC 1188 (HC 229)