



House of Commons
International Development
Committee

**The World Bank:
Government Response
to the Committee's
Fourth Report of
Session 2010–11**

**Fourth Special Report of Session
2010–12**

*Ordered by the House of Commons
to be printed 10 May 2011*

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Fourth Special Report

On 1 March 2011 the International Development Committee published its Fourth Report of Session 2010-11, *The World Bank*, HC 606. On 4 May 2011 we received the Government's Response to the Report. It is reproduced as an Appendix to this Special Report.

In the Government Response, the Committee's conclusions and recommendations are in bold text. The Government's response is in plain text.

Appendix: Government Response

The International Development Committee's (IDC) inquiry on the UK and the World Bank consisted of oral and written evidence from Ministers, officials, and civil society organisations. The IDC also undertook a series of meetings with World Bank senior management during a visit to Washington in November 2010. The IDC sought to examine the effectiveness, priorities and funding requirements for the World Bank and the implications for HMG's contribution to it. The IDC published its report on 1 March.

At the same time HMG were conducting the Multilateral Aid Review (MAR) which looked at the effectiveness and value for money of the international funds and organisations through which the UK spends aid. The MAR found that the International Development Association (IDA) – the concessional arm of the World Bank – offers very good value for money for the UK.

The IDC report is supportive of the way in which HMG conducts its relationship with the World Bank. It also notes concerns that in some areas the Bank's procedures or processes may have an adverse affect on the Bank's effectiveness. The Government agrees with the majority of IDC's recommendations. In those areas where IDC has concerns, there is already work underway to address them, following on from recent shareholder-Bank negotiations on a capital increase and the sixteenth replenishment of IDA.

IDA 16 priorities and targets

[Paragraph 28] We support the increase in funding to IDA 16 and the scale of the UK's contribution. We trust that DFID's contribution is not just because it has a rising budget and the Bank is a convenient channel for disbursing DFID's assistance. Our support is given because of the following reasons:

- **we support the Bank's priorities (fragile states, gender, climate change), which DFID helped to influence**
- **the increased funding to IDA extends DFID's reach into countries where it does not operate and strengthens DFID's work as a partner where it does**
- **the UK as a major contributor, will be in a stronger position to help influence further changes in the governance and accountability of the Bank.**

[Paragraph 29] DFID's financial commitment to IDA reflects the importance the UK attaches to the work of IDA and to international development generally. We share that commitment, but call upon DFID to continue to press for improvements in the way that the World Bank delivers assistance on the ground, especially in speeding up its procurement process, producing a greater impact on the MDGs and making improvements to governance and reform of the Bank.

Agreed. The World Bank is one of the most effective uses of British aid. In the MAR IDA was assessed as being a strong performer. It is closely aligned with the Government's strategic priorities, is focused on poverty reduction and the MDGs, and engages in all of HMG's priority sectors. IDA's resources are allocated to 79 of the world's poorest countries, meaning that the UK's aid reaches the poor in countries where we do not have a bilateral programme. The UK pledge to IDA 16 reflects the importance of IDA's role in the development architecture and its capacity to deliver results and make a difference to the lives of poor people and the development of poor countries.

During the negotiations for IDA 16 HMG secured a number of concrete actions from the Bank against a number of policy priorities, including:

A results 'offer' from the Bank – An improved results framework that sets out the results we can expect IDA16 to deliver, for example increased access to improved water sources and sanitation, or more births attended by skilled health staff. (The IDA 16 results framework is available in the IDA deputies report at www.worldbank.org/ida)

Better performance in fragile and conflict-affected countries – Extending the time post-conflict countries can be given additional assistance, and taking steps to address the implications of the recommendations of the World Development Report for the way it manages its operations,

Better performance on gender – Gender assessments will inform the country assistance strategies (CASs) of countries receiving IDA. The Bank will track and monitor specific interventions that are focused on meeting the needs of women and girls (such as the percentage of health projects that address high fertility and maternal mortality)

Stronger commitments on climate – Climate change vulnerabilities will be assessed as part of the IDA CASs.

Increasing say for poor countries - Establishment of joint borrower and donor working groups to look at critical issues, such as the financial sustainability of IDA, delivery of results, performance in conflict and fragile states and promoting growth, and advise the IDA Deputies and borrower representatives.

HMG also strongly values the World Bank's capacity to respond and adapt to new development challenges, and the Bank's willingness to reform as the world changes. The Bank is in the process of implementing a reform agenda agreed as part of the recapitalisation, voice and reform package at the Spring 2010 meetings. The Bank is overhauling its instruments and enhancing governance arrangements and service delivery. HMG particularly looks forward to the piloting of a corporate scorecard, which will help shareholders in holding the Bank to account and to the consultations on the Program for Results Lending instrument.

[Paragraph 31] We recognise that the IDA 16 package is not as large as some would have liked, especially given that some of the funding will be held in reserve for the Crisis Response Window. It is therefore essential that IDA uses its resources as effectively as possible and for the Independent Evaluation Group to measure whether IDA achieves efficiency gains. Nevertheless, in our view the total funding package still represents an impressive level of commitment by the international community to poor countries at a time when most donors are under pressure to rein in their public spending at home. We especially welcome the increase in the pool of donors, which now includes developing countries which have graduated to middle income status.

Agreed. Whilst the IDA16 total replenishment figure was not as large as some advocated, at \$49.3 billion IDA16 is \$7.6 billion higher than IDA15, with the UK remaining a generous contributor.

The Independent Evaluation Group (IEG) evaluates the effectiveness of the World Bank in a number of ways. Those that are most specific to IDA include reviews of Bank operations in sectors (for example primary education, reproductive health), and IEG specific reviews of IDA CAS completion reports:

- The Bank's management produce formal responses to IEG analysis and recommendations of sectoral reviews. HMG follows up IEG recommendations through monitoring at the Executive Board.
- The CAS is important because it sets out the programme of World Bank support that will be delivered in each country. As part of IDA16 negotiations HMG secured a commitment that the Bank should aim to have 66 per cent of CAS completion reports rated highly satisfactory, satisfactory or mostly satisfactory by IEG. This is a stretching target - the current rate is 44 per cent.

We also welcome middle income countries, including IDA graduates, becoming donors to IDA. Though contributions are modest, in part reflecting the relative size of their economies, we look forward to them playing a more significant part in the seventeenth replenishment of IDA.

[Paragraph 32] We recognise the need for IDA to be able to respond with emergency support to low income countries more speedily and flexibly during a crisis. We therefore welcome the establishment of a permanent Crisis Response Window for the rapid disbursement of funds to low income countries. We do, however, have some reservations about IDA holding up to five percent of its funding in reserve for use under the crisis facility since it inevitably reduces IDA's potential support for non-crisis financing. In its response to this report, DFID should indicate how the work of the Crisis Response Window will be evaluated. We intend to monitor closely the work of the Window.

Noted. The Crisis Response Window (CRW) marks a significant development in IDA's ability to respond to poor countries' needs at a time of crisis or a major natural disaster, like the Haiti earthquake, or other external shocks. To guard against the risk of CRW funds being under-utilised, the Bank will recycle unused money and place it back into the overall IDA pot.

Donors, client countries and Bank management will formally review the performance of the CRW at IDA16's mid term review. Before the formal review, HMG will work with the World Bank and partners to devise a performance framework for the Window that can properly track whether it is helping countries mitigate the impact of shocks.

Procurement process

[Paragraph 36] Building the administrative capacity within a developing country is clearly a worthwhile and important objective. However, we find it unacceptable if procurement and the disbursement of development assistance aimed at achieving the MDGs is delayed, sometimes for years, through inefficiencies in the Bank's approach or lack of administrative capacity in country. We recognise that different countries will require different ways of disbursing funds, but in those cases where procurement is unduly delayed by bureaucratic procedures within the host country, we call upon DFID to urge the World Bank to use alternative systems to facilitate the proper and speedy disbursement of funds in order to have an impact on the MDGs.

Noted. We agree that the Bank's approach to procurement processes can sometimes be an obstacle to efficient implementation and delivery. HMG will continue to press the Bank to make improvements that allow greater speed and efficiency.

HMG will continue to work with the World Bank to encourage greater flexibility in its approach to using and strengthening country procurement systems. Using country systems is, in principle, the best way to strengthen and improve their overall effectiveness. Alternative approaches such as outsourcing (for example, the use of Procurement Agents) may reduce fiduciary risk in the short term but do little to build long term capacity in country.

As the recent *World Development Report on Conflict, Security and Development* highlights, the Bank's procurement system is unsuited to fragile states. HMG looks forward to the Bank's upcoming review of procurement in fragile states, and has called for the Bank to provide recommendations for a more streamlined, efficient approach. HMG also views the new results-based lending instrument (Program for Results - P4R) as a means of achieving greater progress. The High Level Forum on Aid Effectiveness in Busan will also provide the opportunity to remind all donors and partner governments of the commitments they have made in this area.

Governance and accountability

[Paragraph 37] We recommend that DFID continue to work towards agreeing an open and merit based process for selecting the current President's 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 one of the largest contributors to the International Development Association to ensure that, as part of the review of the selection process, a robust system is put in place to evaluate the performance of the President during his or her tenure.

Noted. At the Leader's summit in Toronto the G20 affirmed its commitment to open, transparent and merit-based selection of the heads of international financial institutions such as the World Bank. The UK continues to support this decision.

The UK continues to press for improvements in the accountability of the World Bank President, and for ways shareholders can hold senior management to account. World Bank Governors agreed at the 2011 Spring Meetings that, at the next Presidential selection round, a new dual-performance evaluation system will be introduced for the Board and President. The details have yet to be devised but the UK will argue for an approach that materially strengthens the accountability of the President to shareholders.

We also expect the corporate scorecard to be operational by the 2011 Annual meetings; this will be an important tool for helping Bank Governors hold the Bank's senior management team to account for delivering against agreed performance criteria.

[Paragraph 46] We support further moves towards a more equitable distribution of voting shares between donors and developing countries and a bigger say for developing countries. However, we are mindful that there are limits to how far the distribution of votes can move away from the largest donors before the relationship between donor and the World Bank, or more specifically between taxpayers and the World Bank, is damaged. It is important that the UK, as one of the major contributors, retains sufficient influence within the Bank.

Agreed. We agree that we need to strengthen the legitimacy of the World Bank by continuing to give developing countries a greater say in decision making, including through a more equitable distribution of voting shares. The next shareholding review is due to complete in 2015. In preparation we will work with other shareholders to develop a formula to determine World Bank shareholding that reflects the institution's mandate.

Engaging with civil society and Parliaments

[Paragraph 48] We welcome this decision and hope that DFID, alongside other donors will continue to provide funding to PNoWB.

Noted. The last funding agreement with PNoWB ended in September 2010. If PNoWB submit another funding proposal, our response will depend on the development impact of the Network's proposed activities and the value for money they can offer.

[Paragraph 53] We welcome moves that promote the Bank's engagement with Parliamentarians and civil society in developing countries and genuine ownership of the development strategy by developing countries. However, ownership should not be misinterpreted as control over the Bank's actions. The key to involving the public is greater transparency, including the availability of reliable and timely performance data and the opportunity for Parliamentarians and civil society to scrutinise the Bank's decisions. We commend the Bank's efforts in using innovative ways to disseminate the results of its work, including making data available on the web. To improve Parliamentary scrutiny in the UK, we recommend that Members be given the opportunity to debate more fully the key decisions taken by the Bank, which will continue to receive substantial amounts of funding from the UK. As a start and in view

of the large sums of money involved, we recommend that the draft order to approve the UK's contribution to the IDA16 replenishment be debated on the floor of the House.

Partially agreed. We strongly support the Bank's engagement with Parliaments and wider civil society. In each country in which it operates the Bank should be informing, consulting and working with civic institutions. We welcome the Bank's engagement with legislatures in its countries of operations. In the UK, President Zoellick regularly meets with parliamentary and civil society groups, which we strongly encourage.

HMG notes the recommendation for the IDA16 replenishment to be discussed on the floor of the House. HMG stands at the Committee's disposal for any information and clarification they may require. We ask the business managers /the Backbench Business Committee of the House to discuss whether the UK's contribution to the IDA16 replenishment should be debated on the floor of the House.

Independent Evaluation Group

[Paragraph 57] We support DFID in pressing the World Bank to encourage IEG to provide more timely impact assessments and evaluations of a country's whole development strategy. In addition, we recommend that DFID press the World Bank to strengthen the independence of the IEG and to hold to account those World Bank managers of country programmes who fail to address adequately weaknesses in their projects. We also recommend that DFID press the case for IEG to conduct follow-up evaluations to assess the extent that managers have successfully addressed accepted weaknesses and to publish the results of such assessments

Partially agree. IEG is one of the World Bank's strongest assets. Its country evaluations form a key part of the IDA 16 results framework. We also agree that we should press for more speedy evaluations of CAS and for them to be published as quickly as possible. We do not agree, however, that the IEG should become involved in the performance management system of Bank staff. We believe this would undermine the IEG's role as independent evaluator of World Bank performance. However the Bank is improving its performance management system in other ways, including making performance related pay a much larger percentage of Bank salaries and restricting progression for those with unsatisfactory ratings.

We find the IEG's current institutional arrangement provides the right balance of independence and engagement with the Bank. IEG is independent of Bank management and reports directly to the Board. Major pieces of evaluations are discussed in the Board along with management action plans responding to IEG findings and recommendations. The UK will use its seat on the Board to ensure the IEG remains independent of direct Bank management interference.

Gender

[Paragraph 60] In our First Report of this session, which covered the 2010 Millennium Development Goals Summit, we recommended that donors send a clear message to developing country governments that gender equality was both morally right and economically advantageous for countries, and specifically mentioned the promotion of girls' education. We welcome the fact that IDA16 places emphasis on gender related objectives and call on DFID to monitor the Bank's achievement in this area and, in particular, to ensure that the promotion of girls' education is an early priority for IDA16.

Agreed. The UK worked hard to ensure that the framework for IDA16 placed proper emphasis on gender. We will be holding the World Bank to account for delivering, particularly on girls education.

We are also looking forward to the publication later this year of the World Bank's *World Development Report on Gender Equality and Development*. We have encouraged the World Bank to put emphasis on evidence based recommendations for policy and practice that can be implemented by development partners, including developing country governments, bilateral donors and multilateral agencies. HMG has also strengthened the evidence base for the World Development Report through the sharing of research findings with the Bank, and commissioning of studies to specifically inform the Report.

Environment

[Paragraph 64] We recommend that DFID promote the case for affordable energy access for the poor and a faster transition to low carbon energy use overall. We reaffirm our predecessor Committee's recommendation that DFID also press the Bank's Board towards using the Bank's substantial resources to improve the financial viability of renewable energy. Nevertheless, we recognise that for some countries where there may be insufficient alternative energy sources to coal, the second best option for the World Bank would be to support those projects that are best able to control their carbon emissions. We recommend that DFID monitors closely the Bank's projects and their progress in controlling carbon emissions.

Agreed. The Government has made the commitment to be the greenest UK government ever. The Bank has a key role to play to support the global climate change agenda, for example, by promoting energy efficiency and renewable energy sources. We will continue to engage closely with the Bank on this agenda.

We look forward to the Bank's forthcoming energy strategy, which needs to meet the twin goals of sustainable energy production and addressing the chronic shortfall in energy that exists in many countries – both middle and low income. The Bank needs to navigate a path based on the most valuable contribution that it can make. In this context, it is vital that the Bank leverages private finance into the field of clean energy production.

We strongly support the proposed commitment (in the energy strategy) to conduct greenhouse gas emissions analysis for all new power generation projects in 2012 and within two years for all other energy investment projects.

We also support the Bank in its work to improve the viability of renewable energy. The UK has contributed £385m to the Clean Technology Fund which promotes scaled-up financing for demonstration, deployment and transfer of low-carbon technologies with significant potential for long-term greenhouse gas emissions savings.

Results

[Paragraph 66] We welcome the Bank's intention to focus more sharply on results. We intend to visit projects financed by the World Bank during the country visit we will undertake during forthcoming inquiries.

Agreed. It is a priority for the UK to ensure that the World Bank delivers its commitments. We are also making the case that the World Bank needs to present information on their results in a form that will help the Board and Governors hold Bank management to account for delivery. The IDA16 results measurement system sets out output targets for the Bank, but also specific measures to improve operational effectiveness to ensure it delivers value for money. The Bank-wide corporate scorecard will be another important tool for driving, and communicating, the results agenda.

We welcome the IDC's visits and look forward to hearing their views.

Conclusions

[Paragraph 68] We support the UK's decision to provide a substantial contribution to the IDA replenishment and also support the priorities for IDA16. By contributing 12% of the target for donor contribution (or 15.6% of actual donor pledges), DFID will remain a leading contributor to the main institution for assistance to low income countries. This commitment to IDA reflects the importance the UK attaches to the work of IDA and to international development generally. We share that commitment, but call upon DFID to continue to press for improvements in the way that the World Bank delivers assistance on the ground, especially in speeding up the procurement process and producing a greater impact on the MDGs.

[Paragraph 70] We consider the decision to make a substantial contribution to IDA16 to be the right policy: it is the right thing to do morally — it provides much needed targeted support to the poorest people in the world. It is the right thing to do economically— even during periods of austerity at home, it makes economic sense to contribute funding and expertise to help support economic development and the growth of potential markets, especially when that investment constitutes a relatively small percentage of our national income. It is also the right thing to do strategically — by supporting good governance and helping to overcome global poverty, such development supports our global strategic aims of security and peace as demonstrated by IDA's work in Haiti, and Aceh. As Mr Zoellick made clear, support for IDA16 is not charity: it is an investment in peace and progress.

Agreed. HMG welcomes the IDC's support for the UK's pledge to the sixteenth replenishment of IDA. As one of our most substantial financial commitments we will be monitoring IDA16 very closely to ensure that resources are used effectively, including close analysis of the CRW.

The World Bank continues to be a critical partner in delivering the MDGs. The Government will continue to improve the quality of its engagement with the World Bank, and use our influence as a major shareholder to further improve the impact of the Bank in reducing poverty across the Globe.