

# UK engagement with the World Bank Group

2011/2012



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# Executive Summary

## The UK priorities for engagement with the World Bank Group in 2011/12 are:

- A greater focus on achieving results and efficiency
- Improved performance in fragile states
- Progress on climate change
- Increased impact on poverty reduction by the International Finance Corporation's support to the private sector
- Enhanced impact on the off-track Millennium Development Goals, particularly including their affect on girls and women.

The UK Multilateral Aid Review (MAR)<sup>1</sup> published in March 2011 provides a comprehensive assessment of the value for money and reform priorities of forty three multilateral organisations supported by the British taxpayer. Using a rigorous process of review, it identified the strengths and weaknesses of each of these organisations.

The MAR confirmed that, overall, the World Bank Group ('the Bank')<sup>2</sup> is one of the most effective multilateral institutions that DFID funds. It is closely aligned to UK development priorities and is an important partner in the UK's global efforts to reduce poverty. Recent trends in the Bank on results, private sector development, fragile states and gender are all consistent with the priorities of the UK Coalition Government. The UK's contribution to its concessional lending arm for low income countries (the International Development Association – IDA), demonstrates our confidence in the central role of the Bank in helping to reach the Millennium Development Goals (MDGs) (see below).

However, as the MAR points out, there is still room for improvement in the Bank's performance. The Bank accepts the areas identified in need of further change. The UK is working with the Bank at many levels to support its efforts to address these and make it more effective in reducing global poverty. Our objectives for the Bank in 2011/12 reflect specific reform priorities for IDA and the International Finance Corporation (IFC) resulting from the MAR, as well as priorities derived from our wider shareholder role. The UK will seek to maximise its influence through our role on the board, working closely with other shareholders to support and drive reform, and through close cooperation with our country offices in borrowing countries.

<sup>1</sup> See [www.dfid.gov.uk/Documents/mar](http://www.dfid.gov.uk/Documents/mar)

<sup>2</sup> The World Bank Group comprises five pillars: concessional lending for low income countries (International Development Association – IDA); non-concessional lending for middle income countries (International Bank for Reconstruction and Development - IBRD); direct lending and investment in the private sector (the International Finance Corporation - IFC); provision of guarantees for the private sector (Multilateral Investment Guarantee Agency - MIGA) and the settlement of investment disputes (International Centre for the Settlement of Investment Disputes – ICSID). The MAR examined IDA and IFC. Most of the policies, procedures and management practices adopted for IDA apply equally for IBRD lending.

# Part 1

## How we work with the World Bank



There will be a greater focus on women and girls. Picture of product delivery in Ghana. Photo © Arne Hoel/The World Bank

## How we work with the World Bank

The UK is important to the Bank as a major shareholder (£250 million paid-in capital)<sup>3</sup> and funder (committing £2.66 billion to IDA over the period 2012-2015 and providing substantial resources to trust funds managed by the Bank). We are also valued as a partner in developing policies on a wide range of issues, such as conflict prevention and governance; and through cooperation with our bilateral programmes.<sup>4</sup>

### Britain's support to IDA will help:

- Immunise up to 10.8 million children;
- Improve access to water for 3.9 million people;
- Recruit and train 110,000 teachers; and
- Boost trade by constructing almost 4,000km of road.

The Bank is, equally, an essential partner for the UK given its capacity to respond across most sectors and to provide a broad range of support to partner countries, including a wide range of financial support instruments and extensive technical and policy advice. As a result, the Bank delivers significant results for the UK, including the ability to support countries, sectors and policy areas where we don't have bilateral capacity.

At the country level, in addition to our direct contribution to IDA, we often partner and co-finance with the Bank in large-scale complex programmes and rely on it for technical inputs. Elsewhere, we entrust the Bank to manage trust funds on behalf of ourselves and other donors in fragile states or key sectors. We also use this engagement at the country level to support and inform our oversight at the board to ensure that Bank operations are designed and implemented to maximise their impact on reducing poverty and in compliance with its safeguard and consultation policies.

The UK has a wide ranging policy dialogue with the Bank. We collaborate and, when appropriate, challenge the Bank to develop new policy (such as on social protection and fragile states). We draw on the Bank's vast stock of expertise and knowledge, relying on it for policy expertise we do not have (such as urban development) and ensuring policy coherence on issues that matter to us (such as girls and women). We will use our engagement with the Bank to ensure a clearer policy direction in a number of areas identified in the specific objectives set out in Part Three.

<sup>3</sup> This is the combined total of the UK's paid-in capital in IBRD, IFC and MIGA converted at the 1 July 2011 exchange rate of \$1.6076=£1

<sup>4</sup> An overview of DFID's country programmes is set out in the UK's Bilateral Aid Review (BAR) at [www.dfid.gov.uk/Documents/bar](http://www.dfid.gov.uk/Documents/bar)

## Part 2

# The changing role of the World Bank



Abduallah Abdel Qassim, 47, partner in aluminum shop making window frames that received a microloan from Social Welfare Fund for equipment in the Republic of Yemen. Photo © Dana Smillie / World Bank

# The changing role of the World Bank

Our main priority in the Bank will continue to be the effective use of our substantial IDA contributions in reducing poverty in Low Income Countries (LICs), especially in Africa. This focus is consistent with the UK's development priorities as set out in the MAR and BAR.<sup>5</sup> At the same time, however, we will also engage more with Middle Income Countries (MICs) for two reasons.

First, the Bank has become more important to MICs as a source of financing in recent years, helping them mitigate the impact of the global financial crisis. The Bank's portfolio reflects this with Bank lending nearly three times higher to MICs in the last three years than to LICs. At least three quarters of the world's poor live in MICs with most in countries that have only recently attained MIC status (e.g. Pakistan, Nigeria, India, Pakistan and China). We will continue to push for lending to MICs to give priority to focus on the poorest, the needs of women and girls, the challenge of fragile states, creating opportunities for growth and combating climate change.

The crisis in the Middle East and North Africa has highlighted how events can quickly require a change in priorities and intervention, particularly in MICs. The Bank is taking a proactive approach to respond to the needs of the region. We will continue to encourage it to play a key role in restoring economic stability, making growth more inclusive and promoting more accountable and transparent governance in the region.

Second, MICs have become a much more significant influence in the global economy. The Bank provides a valuable platform in which the UK can engage with them on global public goods and their role in LICs. In addition, the Bank also has an instrumental role in a number of major G20 initiatives such as those on growth, employment and the financial sector. In the run up to the Busan High Level Forum on Aid Effectiveness we will also be supporting an active leadership role for the Bank taking advantage of its global reach and ability to engage with a wide range of development partners, including MICs as donors, and private investors.

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<sup>5</sup> DFID's Changing Lives provides an overview of these reviews - see <http://www.dfid.gov.uk/get-involved/changinglives/?&tab28155=28201>

## Part 3

# 2011/12 objectives



Adriana Banderas raises poultry as part of Bank-supported producer's alliance in La Eugenia, Valle de Cauca, Colombia. Photo: © Charlotte Kesl / World Bank

# 2011/12 objectives

## 1. A greater focus on achieving results and efficiency

Given our substantial investment in the Bank, clear demonstration of results is vital. Encouraged by British efforts, the Bank has recently made progress in a number of areas and significantly shifted its focus from inputs to results.

The IDA Results Measurement System, agreed as part of the IDA 16 replenishment in 2010, sets out what donors can expect to see in exchange for our collective investment. More broadly, the Bank committed at its 2011 Spring Meetings to publish a Corporate Scorecard that will enhance management's accountability to shareholders across the entirety of the Bank's operations and identify where performance is lagging.

We view the Bank's planned Programme for Results instrument (P4R) as an important way in which the Bank can be much more flexible about how it delivers results. Our engagement at country level tells us there is considerable demand for a Bank instrument that is able to deliver financing linked to concrete results and performance. We expect the Bank to use the instrument as ambitiously as possible, strengthening country systems and allowing for significant co-financing and integration of funds and operations.

The Bank has taken a leading role in promoting greater transparency in its operations. It was the first multilateral development bank and third international organisation (after DFID and the Hewlett Foundation) to sign up to the International Aid Transparency Initiative.<sup>6</sup> This places it in the vanguard of transparency, publishing all financial transfers in a common, easily usable format.

The UK also places a high priority on efficiency in delivering results. The package of reforms agreed by Governors at the 2010 Spring Meetings (e.g. the Post Crisis Directions strategy, a corporate scorecard, and reform of knowledge management, lending instruments and Bank governance) should have a far reaching impact. We will assess implementation of these through a results and value for money lens. We will support the Bank to ensure its budget is directed towards its core priorities. We will continue to pursue the modernisation of HR policy including a comprehensive review of compensation and benefits that reflects the importance of cost consciousness, as well as the need to attract and retain the staff required for the future.

We will also continue to work with the Bank and the IFC to align our trust fund operations with the Bank's strategy and priorities, ensure they deliver concrete results and provide value for money.

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<sup>6</sup> See <http://www.aidtransparency.net>  
www.dfid.gov.uk

**Our objectives for this year are:**

- A Corporate Scorecard first discussed at the 2011 Annual Meetings that provides a valuable tool to drive the results focus through the Bank and improves management's accountability to Governors and the Board.
- Agreement that the Corporate Scorecard should extend the approach taken by the IDA Results Framework to IBRD lending, so results are reported for both; and extension of the sectors for which indicators are developed so that a more comprehensive assessment can be made of the Bank's impact.
- Following consultation, the P4R Instrument is approved by the Board including decisions on a first round of projects by Spring 2012. This will help bring results to the forefront of programme design and implementation.
- A successful pilot of development indicators at the IFC, leading to full implementation next year. The work on developing Development Goals will help monitor the additional impact of investments and advisory services, improve the attribution of results and drive strategy and decision-making throughout the organisation.

## 2. Improved performance in Fragile States

Historically, the Bank's performance in fragile states has not been strong, but it is increasingly active, providing assistance in thirty two fragile states (\$1.2 billion in the 2009 financial year). Fragile states are a special theme in IDA 16 and this, together with the World Development Report (WDR) on Conflict, Security and Development, provide opportunities to drive through some critical improvements.

Over the next year we want to see tangible improvements to IBRD and IDA's operations at country level in fragile states, which should include:

**Our objectives for this year are:**

- The Bank being on track to meet all its fragile states targets at the IDA 16 Mid-term Review stage, such as improvements to Country Assistance Strategies, better conflict analysis and a review of the model for allocating finance to fragile states.
- Timely recruitment of suitably skilled staff to increase the Bank's presence in fragile states backed up by human resource reforms and revised staff incentives

- Clear demonstration that the Bank is taking early specific actions to address other recommendations of the WDR that have implications for its own operations. Relevant recommendations include guidance on managing risk in fragile states, procurement reform and improved implementation of the United Nations-Bank partnership for crisis situations.
- An effective UK partnership with the Bank in critical fragile states (e.g. Afghanistan, Pakistan, Sudan).
- The Bank takes a collaborative approach and delivers with others a coherent IFI Action Plan for the Middle East and North Africa.
- The IFC develops a new conflict and fragile states strategy and scales up its activities in conflict and fragile states.

### 3. Progress on Climate Change

There is a huge agenda for the Bank on climate change in 2011/12 and many opportunities. The Bank's efforts on climate change incorporates its country programmes and projects, as well as managing the Climate Investment Funds and its post-Cancun role as interim trustee of the Green Climate Fund. The fact that climate change is one of IDA 16's special themes will support a greater emphasis on climate objectives across the Bank's operations in LICs. The Bank's efforts on climate change need to ensure that country programmes and specific projects promote climate resilient low carbon development.

#### **Our objectives for this year are:**

- The Bank moves away from lending for fossil fuels and has stretching targets for clean energy in its Energy Strategy.
- Strong collaboration between the World Bank and other multilateral organisations, including the UN, which underpins the Bank's advice to the Transitional Committee on the design and structure of the Green Fund.
- Projects approved in 2011/12 from the Climate Investment Funds for Bank implementation yield greater private sector leverage and innovation in technology and financial instruments and the Bank starts implementation of projects financed by the Strategic Climate Fund in LICs.

#### 4. Increased impact on poverty reduction by the International Finance Corporation's support to the private sector

Private sector development and wealth creation are core competences of the Bank. DFID is devoting more resources to the private sector in recognition of its critical contribution to growth, employment and hence poverty reduction. IFC plays a complementary role to that of IBRD and IDA, helping to unleash the potential of the private sector and improving the enabling environment. Not only can IFC lead the way for the private sector and share risks through support from its own balance sheet, it also has a significant role as a catalyst to mobilise private flows, particularly in LICs and fragile states. The IFC MAR identified a number of reforms needed to drive up the ambition of IFC to work in more challenging low income environments, including a greater emphasis on the poorest, further portfolio diversification and an increased emphasis on development impact. We will work closely with management and other shareholders to make the case for these changes and consider how best to achieve them.

##### **Our objectives for this year are:**

- The IFC's new development indicators such as access to finance and improved health and education outcomes drive new investment decisions across the organisation.
- IFC deepens its resources and engagement at a country level and delivers on its commitments to increase activity in LICs and fragile states.
- IFC's new activities in MICs better demonstrate that they are genuinely additional, such as by increasing investment in the poorer regions of MICs.
- IFC successfully implements its new performance standards framework and updates its policy on the use of Offshore Financial Centres in line with the request from the G20 (taking into account the work of the OECD Global Forum).

#### 5. Enhanced impact on the off-track MDGs including girls and women.

Off-track MDGs are areas of particular focus in DFID's Business Plan.<sup>7</sup> The Bank will be a critical partner in delivering results. The Plan identifies access to clean water, sanitation, healthcare and education, and restricting the spread of major diseases. It also targets reproductive and maternal health and infant mortality. The Bank contributes significantly in all of these areas. We will continue to work closely with the Bank at both policy and operational levels on

<sup>7</sup> See <http://www.dfid.gov.uk/About-DFID/Finance-and-performance/DFID-Business-plan-2011---2015/>  
www.dfid.gov.uk

these core issues. This will include cooperation both in improving technical solutions and systems for delivery, including innovative ways of working with the private sector in order to improve access by poor people.

In general, we focus in any one year, on a particular sector or issue in response to specific concerns and opportunities. The Bank's approach to girls and women is a specific focus in 2011/12 reflecting the weaknesses identified in the IDA MAR and the opportunity presented by the 2012 WDR on the theme of Gender Equality and Development.

We will also follow up the Bank's response to the critical findings of the Independent Evaluation Group's report on health programmes to ensure that action necessary to improve the impact of its programmes is taken.

**Our objectives for this year are:**

- A strong convincing WDR on Gender is published by the Annual Meetings with an accompanying implementation plan setting out how the Bank intends to deliver the WDR's recommendations.
- Clear evidence of the Bank reporting of progress against the 2007 Health Nutrition and Population Strategy and the 2010 Reproductive Health Action Plan, including a review of the effectiveness of the African Health Hubs and tracking any emerging issues.

## Part 4

# Taking forward our objectives



Ain Beni Mathar Integrated Combined Cycle Thermo-Solar Power Plant.  
Photo © Dana Smillie / World Bank

## Taking forward our objectives

We will report back on progress against these objectives before the World Bank Annual Meetings in 2012 and identify further objectives for 2012/13. We are committed to careful monitoring of our funding and partnerships with the World Bank using both the World Bank board and our own monitoring instruments. We will take an active role in the IDA working groups, its Mid-term Review and use the Annual and Spring Meetings to hold the Bank to account.

Many of the UK's priorities are incorporated into the IDA 16 results framework (climate change, fragile states, gender and off-track MDGs). Agreement to this by IDA Deputies has greatly facilitated our ability to push for results in these areas. However, there are likely to be other areas where the UK's objectives will not always be shared by all other shareholders. In these instances we may have to reach compromises on the extent of progress possible.

The Bank must continue to evolve and modernise. Demand for global governance in general, and for the services of the Bank in particular, will continue to grow. As the world's largest development institution, with uniquely effective convening power, it remains a critically important partner for us as we combat these challenges. It is the UK's responsibility as a major shareholder to ensure that the Bank is equipped to tackle these challenges. In order to do this we need to maximise our influence as a partner and member of the Bank through: harnessing the multiple facets of our relationship in a coordinated and coherent manner; expanding our network of allies to build alliances with non-traditional partners; channelling our energy through clear prioritisation; and ensuring that everything we do delivers better results and value for money.

# Acronyms and abbreviations

The Bank	The World Bank Group
BAR	Bilateral Aid Review
DFID	UK Department for International Development
G20	The Group of Twenty major economies
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFI	International Financial Institutions
LICs	Low Income Countries
MAR	Multilateral Aid Review
MDGs	Millennium Development Goals
MICs	Middle Income Countries
OECD	Organisation for Economic Co-operation and Development
P4R	Programme for Results
WDR	World Development Report

Front cover image: Felicie Soton is part of a women's group that produces gari (cassava flour). She and her group in Adjegounle village have greatly benefited from Benin's national Community Driven Development project.

Photo: © Arne Hoel/World Bank.

[www.dfid.gov.uk](http://www.dfid.gov.uk)



# What is international development?

International development is about helping people fight poverty. Thanks to the efforts of governments and people around the world, there are 500 million fewer people living in poverty today than there were 25 years ago. But there is still much more to do.

1.4 billion people still live on less than \$1.25 a day. More needs to happen to increase incomes, settle conflicts, increase opportunities for trade, tackle climate change, improve people's health and their chances to get an education.

## Why is the UK government involved?

Each year the UK government helps three million people to lift themselves out of poverty. Ridding the world of poverty is not just morally right, it will make the world a better place for everyone. Problems faced by poor countries affect all of us, including the UK. Britain's fastest growing export markets are in poor countries. Weak government and social exclusion can cause conflict, threatening peace and security around the world. All countries of the world face dangerous climate change together.

## What is the Department for International Development?

The Department for International Development (DFID) leads the UK government's fight against world poverty. DFID has helped more than 250 million people lift themselves from poverty and helped 40 million more children to go to primary school. But there is still much to do to help make a fair, safe and sustainable world for all. Through its network of offices throughout the world, DFID works with governments of developing countries, charities, nongovernment organisations, businesses and international organisations, like the United Nations, European Commission and the World Bank, to eliminate global poverty and its causes. DFID also responds to overseas emergencies. DFID's work forms part of a global promise, the eight UN Millennium Development Goals, for tackling elements of global poverty by 2015.

## What is UKaid?

UKaid is the logo DFID uses to demonstrate how the UK government's development work is improving the lives of the world's poorest people.

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