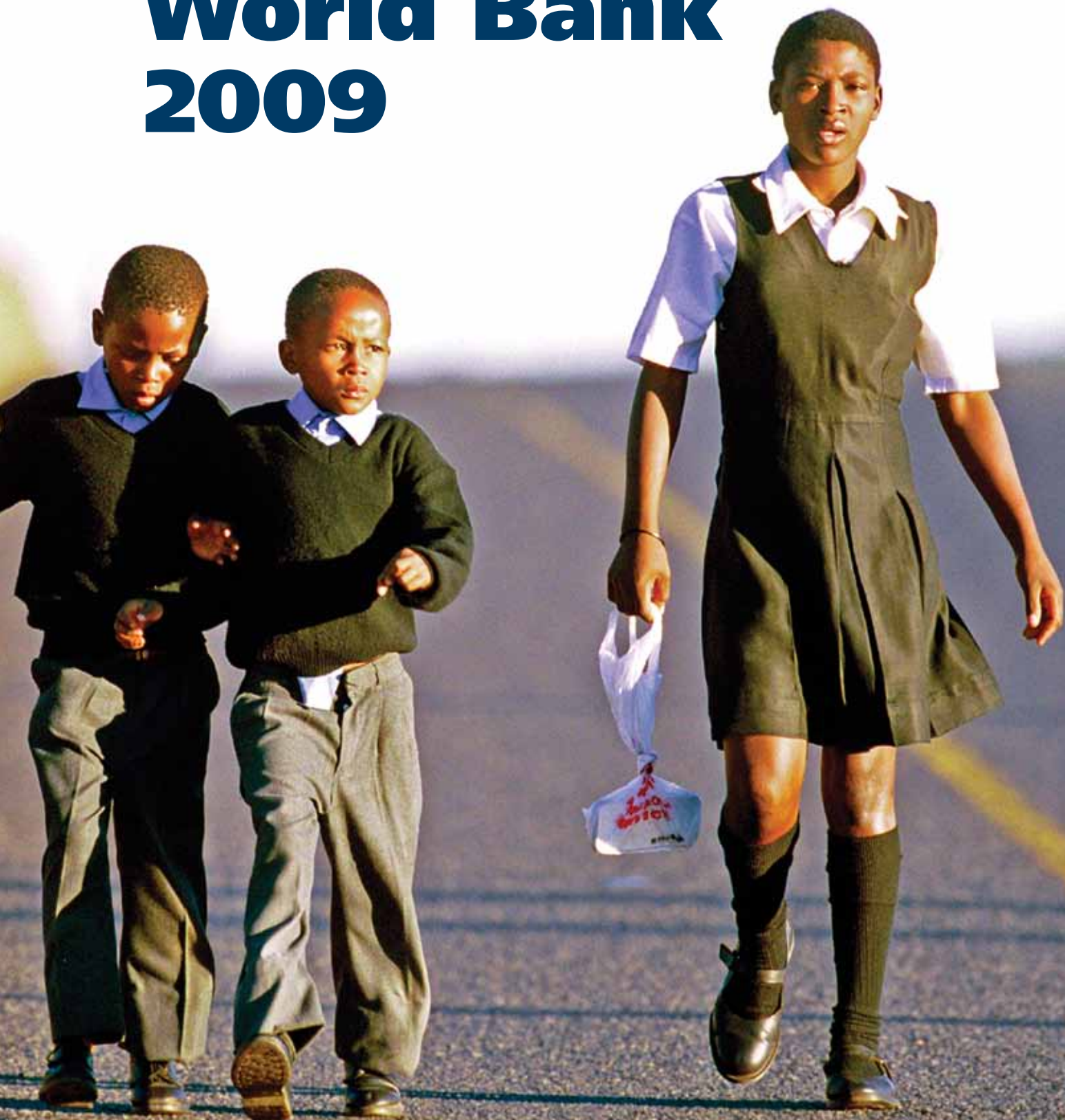


The **UK** and the **World Bank** **2009**



This report covers the period from December 2008 to December 2009.

Unless otherwise stated, references to 2008 and 2009 in this report denote World Bank Fiscal Years (FY) 2008 and 2009 respectively. The World Bank fiscal year runs from 1 July to 30 June. So FY08 denotes the period between 1 July 2007 and 30 June 2008 and FY09 denotes the period between 1 July 2008 and 30 June 2009.

Where appropriate figures have been provided in sterling. Where conversion from US dollars was necessary this was done using the average exchange rate covering the period 1 January 2009 – 31 December 2009, which was 0.648 Pounds to the US Dollar.

Figures from other sources are referenced accordingly. There may be some inconsistencies in figures due different conversion rates.

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Foreword by the Secretary of State



This report sets out how the United Kingdom worked with the World Bank during 2009 to reduce global poverty. This was a year of turbulence for countries around the world, in the wake of the most severe international economic crisis for generations.

The early hopes expressed by some commentators that developing countries would be cushioned from the effects of that crisis were dashed – with the World Bank estimating that an additional 64 million people will be pushed into extreme poverty.

Responding to the economic crisis has dominated our relationship with the World Bank in 2009. As we look ahead to 2010, we will work with the World Bank to further help protect the poorest and most vulnerable people from the impact of the economic crisis.

We will also play our part in helping the World Bank to make the reforms needed so that it can fulfil its rightful role as the primary source of expertise, finance and institutional support for developing countries. Those reforms will include making the Bank's leadership and shareholders more accountable, moving more senior staff out of Washington and into developing countries, and reforming the voting rights among shareholders.

Such reform will better equip the World Bank to address the problems that developing countries face today – from economic renewal to climate change, conflict to state fragility. Every country shares an interest in tackling these challenges, and in tackling extreme poverty – just as every country shares a responsibility for making the World Bank more relevant, legitimate and effective as we enter a new decade.

A handwritten signature in black ink, which appears to read 'Douglas Alexander'.

Rt Hon Douglas Alexander MP

Secretary of State for International Development

1. Introduction

This report sets out how the UK worked with the World Bank Group between December 2008 and December 2009 to make progress on our shared objective: reducing poverty. The Government's engagement with the Bank during this period was underpinned by the objectives set out in the previous report *The UK and the World Bank 2007-2009* and the White Paper *Eliminating World Poverty: Building our Common Future*.

This report also sets out our high-level priorities and objectives for 2010 and how we will work with the Bank, Bank management and other shareholders to achieve them.

DFID has extensive engagement with the Bank on many issues and this report is not intended to be an exhaustive account of all our work over the year. Instead it provides:

- An overview of the Bank;
- An examination of the Bank's response to the financial crisis and progress on reforms;
- A review of the performance of the Bank's work in the poorest countries;
- An assessment of progress against the Government's high-level objectives that were set out in the last Annual Report; and
- Our priorities for engaging with the Bank in 2010.

Annex 1 provides some background on the World Bank Group.

Annex 2 provides details of the UK's financial support to the Bank.

Annex 3 gives an overview of World Bank operations in its fiscal year 2009.

Annex 4 records UK positions on resolutions adopted by the Bank's Board of Governors during 2009.

2. Responding to the Crisis

The World Bank had a central role in the international efforts to respond to the crisis. Developing country governments looked to the Bank for increased financing to allow them to maintain essential services, to continue important infrastructure projects and to protect poor people from its worst effects.

The Bank responded quickly. It scaled up its lending to middle income countries considerably, using its existing capital to raise resources on the international markets. It sped up its processes, and substantially increased the proportion of its lending which is provided as direct financing to government budgets. This type of assistance is quickly delivered and allows governments flexibility to target resources in priority areas.

Some of the highlights in the Bank's work in middle income countries were:

- New loans almost trebled from \$13.5 billion (£8.7 billion) to \$32.9 billion (£21.3 billion)¹.
- Disbursements also increased rapidly – up from \$10.5 billion (£6.8 billion) in 2007-08 to \$18.6 billion (£12 billion) in 2008-2009, an increase of 77%².
- In 2009-10 the demand for lending from middle income countries is expected to reach \$40 billion (£26 billion)³. Lending is expected to total \$100 billion (£64.8 billion) between 2009-11⁴.
- The Bank stepped up its support for governments plans to protect poor people through the crisis with a sevenfold increase (up from \$0.57 billion – £369 million – in 06/08 to \$4.4 billion – £2.8 billion – IBRD lending in 2009-11)⁵.

It was much more challenging for the Bank to assist the poorest countries in the same way. Resources for the poorest countries are fixed, funded largely by donor contributions every 3 years. So the Bank could not increase the total amount of resources available, though it sought to help countries by speeding up project approvals and allowing countries to “frontload” some of their aid, which means letting governments bring forward some of their future aid from the Bank. It also set up a number of new facilities to enable donors to contribute more, building on the success of the food crisis facility.

1 World Bank Annual Report 2009

2 World Bank Quarterly Business Review Q4 FY09

3 The World Bank Group's Response to the Global Crisis: Update on an Ongoing IEG Evaluation

4 World Bank Annual Report, 2009

5 ibid

In the poorest countries the Bank:

- Increased its new project approvals from \$11.2 billion (£7.2 billion) in 2007-08 to \$13.6 billion (£8.8 billion) in 2008-09 and is on track to exceed \$14 billion (£9 billion) in 2009-10⁶.
- Over half of these commitments went to Sub Saharan Africa, and one third to South Asia.
- But in 2009, in the midst of the crisis, IDA disbursements only increased by 1% from 2008, and actually decreased by 11% in Africa⁷. This improved in the latter half of 2009.
- The Bank doubled its support to social protection (up from \$0.62 billion to \$1.4 billion, £400 million to £900 million over 2009-11).

The lack of additional financing for crisis response for the poorest countries was a major concern not least because alternative sources of finance are very limited.

Improving the World Bank's Crisis Response in the Poorest Countries

One of the agreements at the G20 London Summit was that the Prime Minister would review the "adaptability and responsiveness of the International Financial Institutions" to crises. His report is known as the Chair's Review and was published in September 2009 in time for the next G20 Leaders Summit in Pittsburgh.

Consultations in London and Freetown, Sierra Leone, with ministers from the poorest countries identified three key failures in the crisis response:

- a lack of sufficient resources;
- that resources did not follow need; and,
- inadequate speed of response.

So in his report, the Prime Minister proposed that the Bank be asked to look at the feasibility of establishing a permanent crisis response facility for the poorest countries. The aim would be to allow the Bank to help these countries respond when they experience a shock and so protect the progress they have made on tackling poverty, and help stop more people falling into destitution. The G20 Leaders agreed, and at the Bank's Annual Meetings all shareholders asked the Bank to take forward this work.

6 ibid

7 These figures are taken from the World Bank's 2008 annual report. The Bank clarified that the 2008 figures included payments to clear Côte d'Ivoire, Liberia and Togo arrears, to enable them to qualify for debt relief. However taking these figures into account IDA disbursements to Africa only increased by 1%.

In November 2009, the Bank agreed to set up a crisis response facility on a pilot basis. The Bank identified \$1.6 billion (£1 billion) of resources including, £100 million from DFID. 56 IDA countries will be eligible to benefit from these additional resources in 2010. Money from the crisis response facility is a major part of the Bank's emergency response to the Haiti earthquake.

The Government is working with the Bank, as well as other donors and developing countries, to design a permanent crisis response facility so that it is in place when countries next face a problem.

Debt in the crisis

Since the mid 1990s there have been major efforts to resolve the problems of very high levels of debt held by some of the poorest countries. The Bank and International Monetary Fund (IMF) have been central to the design and implementation of the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative. These initiatives have resulted in more than \$117 billion (£75.8 billion) of debt relief being agreed for 28 countries.

The debt initiatives have led to renewed efforts to ensure that countries do not reacquire too much debt in future. A new framework was agreed – the Debt Sustainability Framework – to guide new borrowing and lending decisions. The objective is to balance the need for additional financing for development with the risk of taking on too much debt. The Bank, and others, use the framework to decide whether their assistance to the poorest countries should be in the form of grants, loans, or a combination of both.

During the crisis, the G20 called on the IMF and the Bank to review how the framework was working, and in particular to see whether the balance between the need for resources and avoiding debt problems was being struck. The concern was that it was too restrictive, constraining countries too much at a time when other resources were very scarce. The Government welcomed the decision of the IMF to modify its approach, and take greater account of individual countries' circumstances, allowing greater flexibility. We will continue to monitor the impact of the changes.

World Bank Group Response to the Crisis

Helping countries in the crisis

In Low income countries

- In the Democratic Republic of Congo, a \$100 million (£64.8 million) IDA emergency grant is helping finance the costs of importing essential goods and commodities and paying salaries of teachers in primary and secondary schools.
- And \$35 million (\$22.6 million) to Armenia is helping to create employment in rural areas, working on rehabilitating roads and building small-scale infrastructure.

In Middle income countries

- In Indonesia, the Bank has provided \$415 million (£269 million) for community-level activities such as improvements to school facilities, and direct support to poor families to help them send their children to school.
- In India, the Bank approved a \$400 million (£259 million) loan to improve access to finance for the country's small and medium enterprises, which face serious challenges in accessing adequate and timely financing on competitive terms.
- To help create jobs in Europe and Central Asia, the Bank is financing labour-intensive infrastructure projects across the region.

Supporting social protection in the crisis

In 2009 the UK committed £200 million to the World Bank to scale up social protection. The £200 million is additional to the UK's contribution to IDA15, and will be used as follows:

- £100 million will go directly into the pilot Crisis Response Window for the remainder of the IDA15 period.
- £100 million will help IDA scale up its social protection work, such as the £62 million project in Ethiopia which is providing direct support to very poor households.

Helping the private sector in the crisis

In 2009 the International Finance Corporation – the private sector arm of the World Bank – launched several crisis response initiatives that are expected to provide significant financing over the next 3 years, especially in low income countries.

They include:

- An expansion of the Global Trade Finance Program and a new Global Trade Liquidity Program to support up to \$50 billion (£30.2 billion) in trade.
- A new Infrastructure Crisis Facility, which will provide short- to medium-term debt and equity financing for infrastructure.
- The \$500 million (£324 million) Microfinance Enhancement Facility, which is expected to provide refinancing to over 100 microfinance institutions in up to 40 countries, and support lending of up to \$84 billion (£54.4 billion) to up to 60 low income borrowers by 2014.

World Bank Reform

The crisis put the IMF and the World Bank in the spotlight. At the London Summit, G20 Leaders recognised that the institutions had made considerable efforts to respond to the crisis, and called for more in terms of them mobilising more resources. They also called for their reform.

At the Bank, attention focused on increasing the voice of developing countries and reform of the Bank's governance and ways of working, to ensure that it was "relevant, effective and legitimate" as G20 Leaders had called for. At the World Bank Spring Meetings, the Government built on the London Summit agreements, and helped secure agreement to extending and speeding up reform, bringing forward the deadline for completing the voice reforms to April 2010, and agreeing that wider reforms were needed.

Throughout 2009 the Secretary of State, as the UK's Governor of the Bank, consistently highlighted the need for wide-ranging reform. He called for an overhaul of the Bank's governance – from higher level reforms around shareholders setting direction and improving measures to hold management to account, to the need for clear agreement on reforms to strengthen delivery, such as greater decentralisation of Bank staff. At the Annual Meetings in Istanbul, Governors agreed that they would decide on a package of reforms on voice, governance and capital, at the Spring meeting in April 2010.

The Zedillo Commission

Robert Zoellick, President of the World Bank, commissioned a high-level group, chaired by Ernesto Zedillo, to develop recommendations for modernising the governance of the World Bank Group. The Commission published their report "Repowering the World Bank for the 21st Century" in late October 2009.

The report identified three main shortcomings in the Bank's governance: strategy formulation, voice and participation, and accountability. And to address this it put forward five key recommendations:

- Enhance the voice and participation of developing countries;
- Restructure the World Bank Group's governing bodies;
- Reform the leadership selection process;
- Strengthen management accountability; and
- Strengthen the World Bank Group's resource base through a general capital increase.

The UK agrees with much of the analysis in the Zedillo report, as well as the ambitious reach of the recommendations, and welcomed it as a constructive addition to the reform agenda.

World Bank Budget

The Bank needs to ensure that it is operating most effectively and efficiently, recognising that it is funded by public money. In 2009 the UK, along with the US, France and Italy, abstained on the vote to approve the increase to the Bank's administrative budget, which Bank management requested. We did not consider that the Bank had done all it could to make efficiency savings across the organisation. In the months leading up to presentations of the budget, the UK pushed the Bank to take a hard look across its operations to identify savings. However we found the Bank's approach to be limited, and so were not prepared to approve increased resources.



CASE STUDY

Vietnam – Development in the Northern Mountains

Ethnic minority groups in the Northern Vietnam Mountains Region face many difficulties, including inadequate access to health care, land, water, agricultural support services and off-farm jobs. Educational attainment was limited, as were national language and literacy skills. Morbidity and mortality were excessive from the lack of clean water and the prevalence of unsanitary conditions and malnutrition.

The World Bank's Northern Mountains Poverty Reduction Project sought to accelerate development and cut poverty in some of the poorest areas. Using a community-driven approach a large number of small subprojects were selected and largely implemented by local governments (which encompass an average of 10 villages each). Subprojects included the construction and upgrading of rural roads, small-scale irrigation systems, and health facilities such as teacher training, medical equipment and medicines.

Several thousand subproject activities were implemented under the project, improving access to basic services and opening opportunities for tens of thousands of rural households.

- 128 commune health stations were built or upgraded to provide better, more accessible basic health care to 353,871 households.
- A total of 1,693 improved education facilities were constructed – including 858 village classrooms, 428 nurseries, 319 houses for teachers and 88 upgraded schools.
- A total of 2,110 km of roads were built, and 930 km of roads were upgraded, reducing travel time to market by nearly 20% in the project areas.
- The average income per household in the project area was Vietnamese dong (VND) 10.6 million in 2007, more than double the 2004 average income of VND 4.3 million.

Source: *IDA at Work* <http://go.worldbank.org/S1G3Z2L7X0>

3. International Development Association: IDA15 Performance

The International Development Association (IDA) is the part of the Bank that assists the poorest countries. It is one of the largest sources of assistance for the world's 79 poorest countries, 39 of which are in Africa.

IDA is funded largely by contributions from the governments of donor countries. Donors meet every three years to 'replenish' IDA. 45 donor countries contributed to the 15th replenishment of IDA. These funds are being used over the three-year period between July 2008 and June 2011.

The IDA 15 replenishment was the largest ever in terms of size of contributions. Donors pledged \$25 billion (£12.9 billion) – a 42% increase over the last replenishment – which combined with other resources gave a total of \$41.7 billion (£21.6 billion). The UK was the largest single donor contributing £2.1 billion (\$4.1 billion), a 49% increase over the UK contribution to IDA14.

Mid-term review of progress

At the mid point of the 3-year replenishment period, Bank management and donors take stock of progress. The November 2009 mid-term review was an opportunity to review the Bank's performance against the policy commitments they had made during the negotiations, and for DFID to assess the Bank against the UK's key priorities.

The Bank's crisis response in IDA countries was high on the agenda. As mentioned earlier in the report, there was acknowledgement that IDA's crisis response was not as effective as it could have been. Disbursement was slow, and there was a lack of transparency and predictability in decisions on which countries could receive direct support to their budgets. And as noted above resources were limited.

As part of its increased focus on reporting results, the Bank reviewed the 32 IDA projects that finished in 2008/09⁸. Some of the highlights included:

- Water and sanitation projects benefitted over 2 million people by constructing 4,000 new water connections and 93,000 new sanitation facilities;
- Transport projects rehabilitated almost 900 km of roads; and
- Health projects helped train close to three thousand professionals and distributed 85,000 insecticide-treated bed nets.

8 IDA15 Mid-Term Review Implementation Report

Assessing the Bank's performance against some of DFID's key priorities there is a more of a mixed picture.

Decentralisation

The Bank's commitments on decentralisation of staff in Africa and fragile states have been met:

- the number of internationally recruited staff based in Africa increased by over 57% between 2007 and 2009;
- the number of internationally recruited staff in fragile and conflict affected countries has increased by 28 (a 30% increase), and three new offices were opened.

There are still, however, critical gaps in staffing of World Bank offices, particularly in fragile states, and persistent low levels of tasks managed in country. These gaps have constrained the Bank's effectiveness and limited the extent to which the Bank can engage meaningfully in partnerships.

Policy Conditionality

The Bank has made considerable progress in recent years in reforming its use of conditionality. The average number of conditions in a typical Bank loan has fallen from 32 in 1999 to 9 in 2008, and it has adopted Good Practice Principles, which underline the importance of country ownership and limiting conditions to those that are critical to the success of the project. The Bank has also committed not to use conditions on sensitive policies such as privatisation and liberalisation if country ownership is uncertain or the political environment is fragile.

The Government has continued to emphasise the importance of the Bank fulfilling its commitments on conditionality. We have particularly underlined the value of using policy and social impact analysis more systematically in the Bank's work. With other donors, DFID has been discussing ways to improve the Bank's practice in this area and increasing the resources available for this type of analysis.

Fragile states

The Bank has made changes to enable it to better assist fragile states but there is still some way to go. Positive developments include increasing the resources available to fragile states, increasing staffing and improved collaboration with the UN.

However, the UK and others agreed that the Bank needs to continue to improve. Issues being discussed include extending the time for which countries emerging from conflict receive exceptional assistance and addressing problems in managing multi-donor trust funds.

The view from IDA Client Countries

At the IDA mid-term review Finance Ministers from Rwanda and Burkina Faso were invited to share their experience of tackling the crisis and their views on the performance of the World Bank. They both spoke of severe impacts on domestic revenues and GDP growth, and in response how expenditure had been re-prioritised, particularly towards social protection.

The Bank's commitment to bring forward future aid was welcomed. They also strongly supported the establishment of the crisis response window, emphasising the need for swift, flexible support, aligned to country priorities.

More generally the Ministers called for the Bank to show more leadership in improving the quality of its assistance, particularly making more use of country systems, speeding up the flow of funding and reducing the number of visiting Bank staff by having more based in country.



CASE STUDY

Improving Education in Uganda

In 1997 the Government of Uganda eliminated primary school fees. The result was almost twice as many children were enrolled by their parents, which put schools under tremendous pressure.

The World Bank provided funding to increase the government's education budget to help it respond to the surge in enrolments. Together with the Governments of the UK, Denmark, Netherlands, Ireland, and the US, as well as the European Commission, the Bank prepared a programme to help the Government of Uganda make the best use of its own resources and those of donors. It focused on improving the quality of teaching, increasing the attainment of children, and strengthening the management of the sector.

The increase in enrolment in primary school was not only sustained, but has continued to grow. The number of children in primary school has grown from 3.1 million in 1996 to 7.3 million in 2006, and there has been a disproportionate increase in the number of children from poorer backgrounds and in the number of girls going to primary school.

Source: *IDA at Work* <http://go.worldbank.org/S1G3Z2L7X0>

4. Review of 2009 Priorities and Objectives

Last year's report on the UK and the World Bank set out five priorities and high-level objectives for our work for the Bank in 2009. In July 2009 the Government published the White Paper *Eliminating World Poverty: Building our Common Future* which contains a number of commitments on the World Bank. This section reviews initial progress against these priorities.

DFID will seek governance reform at the World Bank, building on the momentum of the G20 process, to give developing countries a stronger voice.

Good progress has been made. In October 2008 the Bank's member countries agreed a first phase of reforms, which included giving more voice to the poorest and smallest countries and creating a third Board seat for Sub-Saharan African countries.

The second phase of reform is currently underway, and the Government used the G20 Summit in London to secure an accelerated timetable. Discussions are focused on how to determine the basis for voting power. Countries have already agreed to shift at least 3% of the votes from richer countries to developing countries. This is on top of the 1.5% transfer that happened under phase one.

But voting reform will not be enough, and as outlined above the Government has pressed for wider changes to build a more responsive Bank – one that delivers higher quality assistance and support and so secures better development outcomes. At the Bank's Annual Meetings in October 2009, Governors agreed to conclude the voting reform and to discuss wider governance reforms at the Spring Meetings in April 2010.

The Government also pressed for the poorest countries to have a greater role in the IDA mid-term review. This met with some success – the Finance Ministers of Rwanda and Burkina Faso were invited, and the mid-term review started with them providing very helpful perspectives on the Bank's performance, including in response to the crisis. The Government has made clear to the Bank that we would like to see more systematic involvement of IDA countries in assessing Bank performance in future.

DFID will help the World Bank act more quickly and flexibly in response to current and future challenges, including by proposing new instruments and more decentralisation.

The Bank has already met its commitment to increase by 50% the number of internationally-recruited staff located in Africa. This was ahead of schedule.

Progress in establishing a new approach to designing projects has been slower. The Bank has undertaken consultation in 33 countries and will present the proposed reforms to shareholders in the first half of 2010. The Bank has begun to implement some of the reforms in new projects, and we expect the complete roll-out to begin in the latter half of 2010. DFID has been working closely with the Bank on this and our aim has been to secure the White Paper target of bringing down the average time it takes to process the most common loan from 18 to 12 months.

DFID has highlighted greater decentralisation and reform of project approaches as priorities for 2010 because they are central to making the Bank a better development institution, more responsive to the priorities of its partner countries. On decentralisation, the White Paper has set a stretching target for the Bank to have 70% of its senior staff working on Africa located in Africa by 2012.

DFID will encourage the World Bank to put climate change and environmental sustainability at the heart of its poverty reduction work.

In 2009, DFID pledged to work with the World Bank to meet the levels of investment set out in the Clean Energy Investment Framework, deliver on the commitments set out in the Bank's 2008 strategic framework and ensure the Climate Investment Funds support low carbon programmes and country ownership. We also set out more ambitious targets for Bank support for energy efficiency and renewables and called for a robust environment strategy which improves the numbers, and skills of, Bank staff able to deal with sustainability issues.

Good progress has been made. The World Bank financing for renewable energy and energy efficiency rose 24% in 2009 to \$3.3 billion (£2.1 billion), an all time high. Renewables and energy efficiency now constitute around 40% of the Bank's total energy portfolio, with the aim to move this to 50% within the next two years. DFID will continue to push for these targets to reach 60% in 2012, as set out in the White Paper. We are working closely with the Bank on its energy strategy to achieve this, including through helping developing countries access more reliable sources of energy whilst shifting to a more environmentally sustainable growth path.

At the same time, the Bank has made solid progress against the six commitments in the strategic framework which cover both mitigation and adaptation activities. Progress has been made in particular on integrating climate change into policy dialogue with clients, with climate change now integrated into over 60% of the Bank's country assistance strategies renewed in 2009.

In 2009, we also worked closely with the World Bank on the review and design of its Environment Strategy which gives a more central role to climate change and environmental sustainability across the Bank's work. We funded and contributed to some of the technical thinking and are now engaging with the Bank on its global

consultations. The new Environment Strategy will be published in 2010. The Bank made significant progress in promoting IDA as the main mechanism for helping poor countries mainstream climate change into development activities and linking IDA to the new Climate Investment Funds (CIFs).

The CIFs remain our major investment with the Bank on climate. We have pressed for robust results frameworks and for partner countries to drive the development of their low carbon and climate resilient investment plans. While the CIFs have been successfully designed to drive the principle of country ownership, progress on making this work in country has been mixed. As the climate resilience, forestry and renewable energy programmes under the CIFs are beginning to roll-out, we are seeing increased up-take in low income countries for CIF related instruments. We are pressing the Bank to learn lessons from the CIFs to help inform the way climate funds are channelled as follow up to Copenhagen. We have had some success in this, with side events at Copenhagen and work underway to strengthen the link between the CIFs and the UNFCCC. The CIFs will continue to inform next steps in 2010. But to get the best outcomes from both CIFs and IDA and climate mainstreamed into country strategies, the priority is to get more Bank staff with the right skills working at country level.

DFID will support the World Bank in transforming its health programmes.

In 2008 the Bank's Independent Evaluation Group (IEG) published a critical report on the Bank's performance in health. The Bank has shown that it is willing to respond to the lessons highlighted. For example, the Bank recognises that it should focus on areas where it has a comparative advantage and is likely to generate the highest value from its interventions, such as health systems strengthening.

As a result in 2009 DFID has engaged closely with the Bank to strengthen its approach to supporting health systems and improve Bank collaboration with others. DFID has also worked closely with the Bank to support the establishment of two new health hubs in Africa, in Dakar and Nairobi. The hubs are designed to improve the Bank's ability to rapidly assist the design and implementation of health programmes in country.

We have also seen the number of Bank projects with a primary focus on health systems increase. 67% of Bank programmes approved since 2007 that focus on priority disease areas also include strong components on strengthening health systems.⁹ A recently approved Health Services Development Project in the Republic of Congo will support the strengthening of health systems to combat some of the major communicable diseases and improve access to quality services for women, children, and other vulnerable groups¹⁰.

⁹ siteresources.worldbank.org/IDA/Resources/IDA-Health.pdf

¹⁰ *ibid.*

We will continue to work with the Bank to improve their performance on these issues and press them to issue stronger and clearer guidance to staff working with poor countries on the removal of health user fees.

DFID will promote mainstreaming of gender equality in all the World Bank's work.

The Bank's performance in gender has been patchy. DFID and other donors have provided funding to the Bank's Gender Action Plan (GAP) which has been successful in tackling gender inequality. However in its core work, the Bank does not demonstrate strong commitment to addressing the inequality and discrimination faced by women and girls. Changing the approach of Bank staff is challenging and will need sustained effort. The UK worked very closely with other shareholders to secure the Bank's agreement to focus the 2012 World Development Report on gender.

The Bank's own Independent Evaluation Group (IEG) produced a critical review of the Bank's work on gender, highlighting many weaknesses. DFID will use key opportunities in 2010 to press for improvements on the Bank's gender performance:

- The development of a new Gender Action Plan, which will include taking forward recommendations from the IEG report;
- During the IDA16 negotiations DFID will work with donors to develop specific, measurable and monitorable success criteria on gender for the IDA16 period; and
- Working with the Bank as it develops the 2012 World Development Report on gender equality.



CASE STUDY

Afghanistan – building basic health care

By the time the Taliban regime fell in 2001, Afghanistan had some of the world's worst health indicators. Insufficient access to basic reproductive and child health services meant that the rate of deaths for under-fives was estimated to be 1 in 4, compared to 1 in 10 for the South Asia region. Building on the work of local and international NGOs, a \$120 million (£77.7 million) IDA grant was provided to improve basic health services. The project ran from 2003-2009

Millions of people in rural Afghanistan now have access to primary health care for the first time, as national coverage rates rose from 9 percent of the general population in 2003 to 85 percent in 2008.

- A 2006 study indicates a 26% drop in the rate of deaths for the under-fives since 2002, and in the 11 project provinces the number of health facilities has nearly tripled from 148 to 421.
- The number of pregnant women who received at least one prenatal care visit rose from 8,500 in 2003 to 188,670 in 2008.
- And around 20,000 community health workers – half of them women – have been trained and deployed throughout the country, increasing access to family planning and boosting childhood vaccinations.

In March 2009 the IDA Board approved another \$30 million (£19.4 million) to continue and build on progress made in the provision of basic health services, through contracts with national and international NGOs and direct delivery of services by the health ministry.

Source: *IDA at Work* <http://go.worldbank.org/S1G3Z2L7X0>

5. 2010 Priorities and Objectives

2010 is a critical year for the World Bank. At the Spring Meetings in April, Governors will discuss voice and governance reforms; consider a new strategy for the Bank; and the reforms needed to deliver it effectively. They will also be asked to increase the Bank's capital. And throughout the year, the negotiations for the 16th replenishment of IDA will take place. Together these decisions provide key opportunities to make real progress on modernising the Bank to enable it to deliver better outcomes for poor people.

The policy commitments set out in the White Paper will continue to underpin our engagement with the Bank. Many of the issues covered in earlier sections will continue to feature heavily in our engagement with the Bank, including taking forward work on climate change and improving the Bank's health programmes. This section highlights three issues on which the Government will be concentrating its efforts to secure progress in 2010.

Renewing the Bank's Governance

The Government's priorities are to agree at the Spring Meetings in April:

- Voting reform to give developing countries more say, underpinned by a dynamic formula that supports the Bank's work and allows for further changes over time; and
- Corporate governance and institutional reform to ensure the Bank can respond quickly and effectively to the development challenges of the 21st century.

On voice, the Government is focused on securing a voting formula that is transparent, rules-based and provides strong incentives for donors to provide contributions to IDA. We will also continue to argue that the voting formula should recognise that the Bank's client countries have a central role to play in ensuring that the Bank fulfils its mission of tackling poverty.

On governance, we will press for:

- Stronger political stewardship of the Bank with Governors engaged in setting strategic direction, reviewing progress against delivery of the Bank's business plan, and undertaking annual performance assessments of senior Bank management;
- A medium-term corporate strategy that sets out the future direction of the Bank;
- A business plan based on the strategy with key performance indicators against which management can be held to account;

- Greater operational freedom for Bank management to deliver the agreed business plan; and
- Independent chairing of the World Bank Board.

Resourcing the Bank

The Bank dramatically increased its lending in response to the crisis and has been stretching its existing capital resources to meet the increased demand from developing countries. It has asked its shareholders for more capital to enable it to increase the financing it can provide to middle income countries after the crisis through IBRD.

Both IFC and IBRD have requested capital. For IBRD this would be the first capital increase since 1988. The G20 Leaders pledged in London to ensure that the Bank has adequate resources. We have said that we are open to consider the case for additional capital but the Government will press to ensure:

- The governance reform agenda is on track to maximize the effective use of any new capital;
- The Bank has done as much as possible to stretch its existing capital; and
- Poor countries benefit from the new capital, by securing agreements to transfer net income (profits) to IDA and increase the access of IDA countries to IBRD lending.

The IDA replenishment negotiations provide an important opportunity to improve the quality of the Bank's assistance to the poorest countries, as well as increase the resources it has. Many of the issues mentioned elsewhere in the report – the Bank's work in fragile states, its contribution to gender equality for example – and the issues outlined below will be discussed as part of the IDA negotiations, and the Government will focus on working with other donors and IDA countries to secure better Bank performance.

Making the Bank more responsive to clients

We will continue to press the World Bank to be as responsive as possible by decentralising staff and decision making to the country-level. Our priority is to agree that more staff will be based in Africa and in fragile states – the Bank's own analysis shows that delivery improves when Bank staff are on hand to work in close partnership with governments.

We will work closely with the Bank and other shareholders to speed up delivery by reforming the way in which the Bank designs and implements projects. Currently the Bank's heavy procedures delay assistance and make it difficult for the Bank to work well with other donors and through government's own systems.

Our objectives are to:

- Increase the percentage of senior Bank staff working on Africa who are based in Africa to at least 70% by 2012;
- Finalise and roll out its new approach to projects to reduce the average time it takes to agree new projects from 18 to 12 months; and
- Establish a permanent crisis response facility in IDA.

Annex 1:

The World Bank Group

The World Bank Group consists of five closely associated institutions. Each institution plays a distinct role in the mission to fight poverty and improve living conditions for people in the developing world. The five institutions are the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Guarantee Agency (MIGA) and International Centre for the Settlement of Investment Disputes (ICSID). The World Bank Group institutions are all owned by member countries, who have the ultimate decision making powers.

The term 'World Bank' refers to two of the five institutions; IDA whose work focuses on the world's poorest countries, and IBRD with its focus on middle income countries.

World Bank Management

The Board of Governors is the highest governing authority for IBRD and IDA. The Secretary of State for International Development is the UK's Governor. He also represents the UK on the Development Committee, the main ministerial forum for discussing Bank policies. The Chancellor of the Exchequer is the UK's Alternate Governor.

Responsibility for the day-to-day operations of the World Bank, and for most decisions on policy and country issues, is delegated to the Executive Board. The Board is made up of 24 Executive Directors (EDs), chosen by the 185 member countries to represent them, and chaired by the President of the Bank. There is a 25th seat for Sub Saharan Africa yet to be taken up. The Secretary of State for International Development appoints the UK's Executive Director at the Bank. As one of the 5 largest shareholders the UK has the right to appoint its own Executive Director, while countries with smaller shareholdings are grouped into constituencies.

International Development Association

IDA, formed in 1960, helps the world's poorest people by providing low interest loans (typically 0.75%) and grants for programmes that boost economic growth, reduce inequalities and improve people's living conditions. IDA is one of the largest sources of assistance to the world's poorest countries, almost half of which are in Africa. The UK was the largest contributor to the last IDA replenishment.

International Bank for Reconstruction and Development

IBRD, founded in 1944, provides loans and development assistance to middle income countries and credit-worthy poorer countries. It provides client countries with access to capital on favourable terms in larger volumes, with longer maturities, than the market generally provides.

LICs and MICs

The World Bank's main criterion for classifying economies is gross national income (GNI) per capita. Based on this measure every economy is classified as low income, middle income (subdivided into lower middle and upper middle), or high income. According to 2008 GNI per capita, the groups are: low income, \$975 or less; lower middle income, \$976–3,855; upper middle income, \$3,856–11,905; and high income, \$11,906 or more.

International Finance Corporation

The IFC lends money to, or invests equity in, private companies operating in developing countries. Its purpose is to create opportunities for people to escape poverty and improve their lives, including through job generation and basic service delivery. It is the world's largest provider of multilateral financing for the private sector in the developing world. In 2009 IFC committed \$10.5 billion (£6.8 billion) and mobilized an additional \$4 billion (£2.6 billion), funding 447 projects to support sustainable private enterprises in developing economies.

Multilateral Investment Guarantee Agency

MIGA's mission is to promote foreign direct investment into developing countries to support economic growth and improve people's lives. It does this by insuring investors against political risk, advising governments on attracting investment, sharing information and mediating disputes between investors and governments. In 2009 MIGA issued guarantees totalling \$1.4 billion (£900 million) for 26 projects in developing countries, including \$1.2 billion (£780 million) for financial sector projects in Europe and Central Asia.

MIGA's ability to respond to the financial crisis has been somewhat constrained by its Convention, which limits MIGA's ability to cover freestanding debt or existing assets. MIGA has accordingly been seeking to accelerate changes to its Convention to allow greater product flexibility.

Annex 2:

UK's financial support to the World Bank

The UK provides two main forms of financial support to the World Bank: core contributions and contributions to Trust Funds.

Core Financial Support for the Bank

The majority of UK funding to the World Bank goes to IDA, the arm of the World Bank that provides grants and concessional loans to the world's poorest countries. Donors pledge support to IDA for a three-year period. In 2008, the UK pledged £2.134 billion to the fifteenth replenishment of IDA to be paid in instalments over the next three years. The UK contributed £524 million in FY09 to IDA.

Past UK contributions to the World Bank can be found in table A1 below.

Table A1: UK Core Contributions to IDA (£ thousand)

| | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 |
|--|---------|---------|---------|---------|---------|
| International Development Association | 150 000 | 364 800 | 493 333 | 493 333 | 524 805 |

Trust Funds

The UK is also a major contributor to Trust Funds administered by the World Bank Group (mainly IDA, IBRD and IFC). DFID funds Trust Funds with the World Bank to support development activities through a flexible mechanism that can involve multiple partners, to maximize harmonization, aid effectiveness and policy coherence objectives and mobilise the Bank's high quality resources to address important development initiatives.

The Bank uses Trust Funds mainly to provide financial support and advisory services. Most advisory services directly support the technical assistance needs of recipient countries, while others support the Bank's work programme undertaken on behalf of recipient countries.

In 2009, the UK was the second largest Trust Fund donor, contributing around £595 million¹¹. The US was the largest Trust Fund donor, contributing £818 million.

¹¹ World Bank Annual Report, 2009 pp 60 table 3.2.

Annex 3:

World Bank financial operations in Fiscal Year 2009

IBRD raises financing for its work in middle income countries by borrowing from international financial markets.

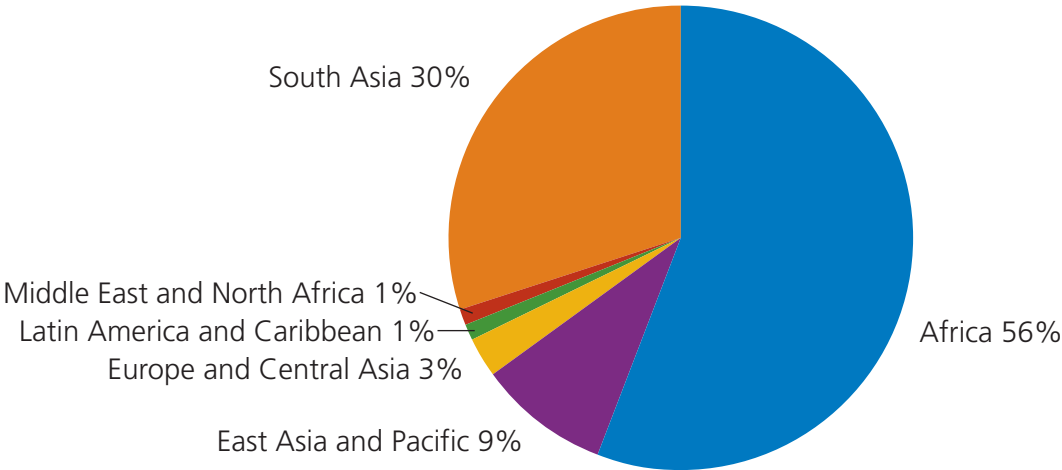
Its work in poorer countries (IDA) is funded by contributions from donor countries, reflows from past IDA lending, and a portion of the Bank’s profits, known as net income.

During FY09 (July 2008 to June 2009), the Bank committed a total of \$46.9 billion (£30.4 billion) in new assistance for developing countries. Of this \$14 billion (£9 billion) was committed by IDA and \$32.9 billion (£21.3 billion) by IBRD.

International Development Association

The \$14 billion of IDA funds committed in 2009 was a 25% increase from the \$11.2 billion (£7.2 billion) committed in 2008. The largest share of IDA resources was committed to Africa, which received 56% of all IDA commitments. South Asia also received a large share of total funding. Nigeria and Pakistan were the largest single recipients of IDA funding.

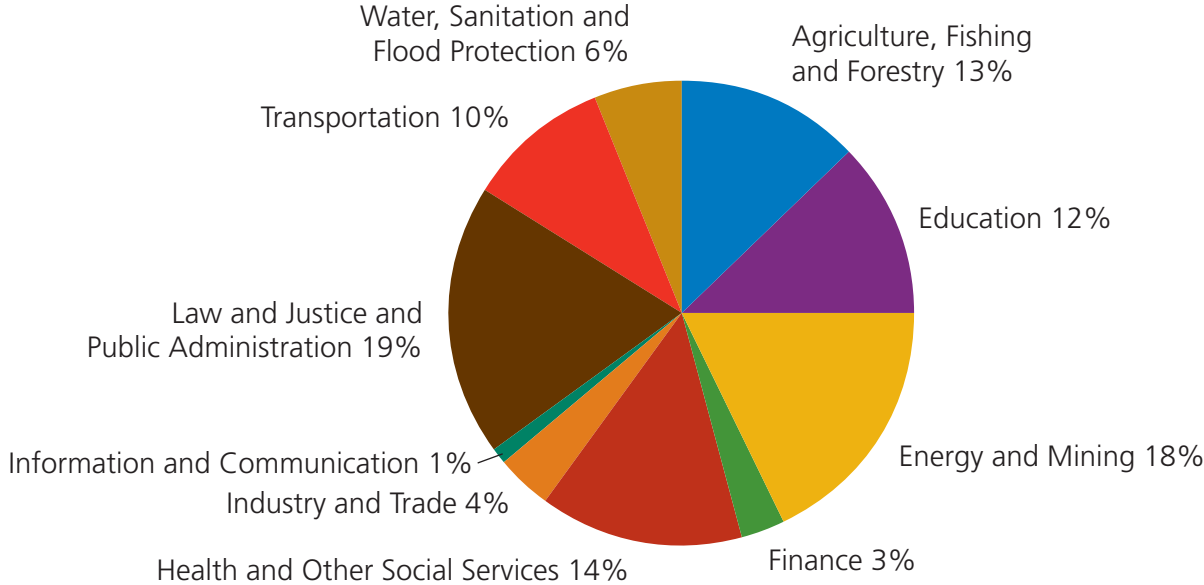
Figure 1: Total IDA Commitments by Region | Fiscal 2009
(Share of Total of \$14 billion)



Source: World Bank Annual Report 2009

In sectoral terms, public administration (including law, and justice) received the largest commitments, 19% of the total. This is a fall of 7% from 2008. IDA’s support to infrastructure continued to increase with 35% of total commitments going to energy and mining; transportation; water, sanitation, and flood protection; and information and communication technologies. There was also significant support for the education (12%) and agricultural (13%) sectors.

Figure 2: Total IDA Commitments by Sector | Fiscal 2009
(Share of Total lending of \$14 billion)



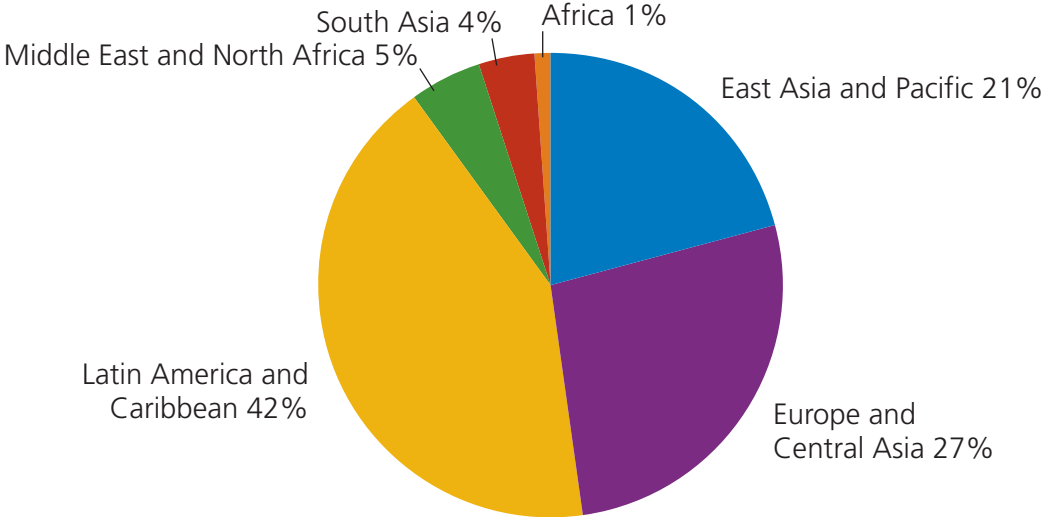
Source: World Bank Annual Report 2009

International Bank for Reconstruction and Development

The \$32.9 billion (£21.3 billion) committed through IBRD in 2009 represented a 144% increase compared to the \$13.5 billion (£8.7 billion) committed in 2008. The Bank has almost trebled its lending to MICs, committing to lend more than \$100 billion (£64.8 billion) over three years 2008-2011.

Latin America and the Caribbean continued to be the largest recipients of IBRD lending receiving 42% of total lending. Europe and Central Asia received 27%, and East Asia and Pacific received 21% of total lending. Indonesia and Brazil were the largest single recipients of IBRD lending, with Mexico close behind and a drop off to number four.

Figure 3: Total IBRD Commitments by Region | Fiscal 2009
(Share of Total lending of \$32.9 billion)

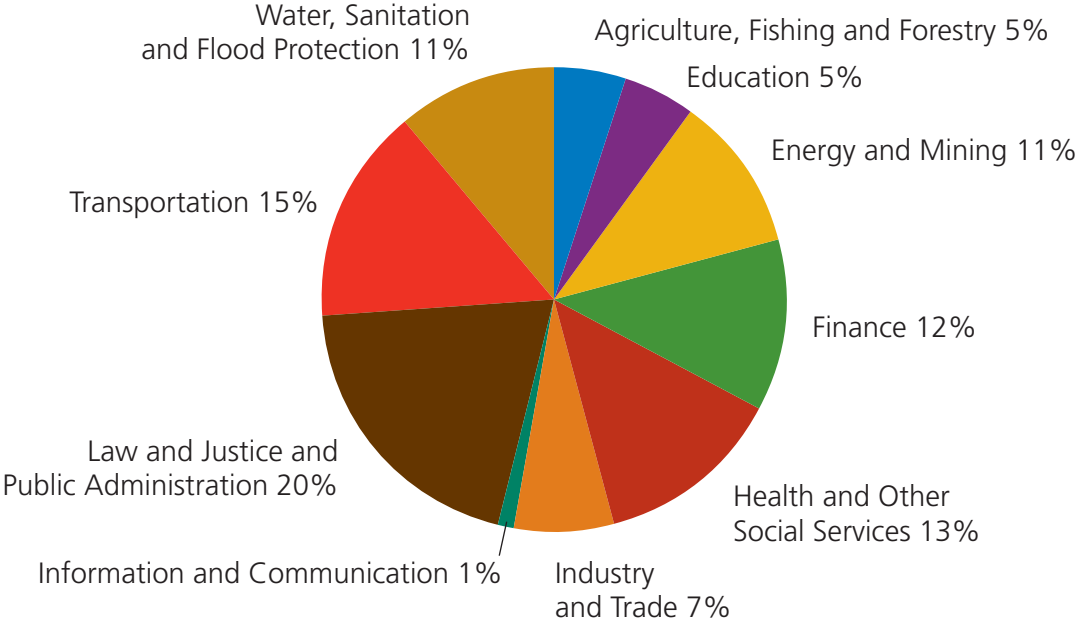


Source: World Bank Annual Report 2009

The public administration sector (including law and justice) was the largest recipient of IBRD lending in 2009, receiving 21% of total lending. Transportation received 15% and health and other social services received 13%.

Figure 4: Total IBRD Commitments by Sector | Fiscal 2009

(Share of Total lending of \$32.9 billion)



Source: World Bank Annual Report 2009

Annex 4:

UK positions on resolutions adopted by the World Bank's Board of Governors December 2008 – December 2009

| Resolution No. | Title | Adoption Date | UK Position |
|----------------|---|---------------|-------------|
| IBRD | | | |
| 596 | Enhancing the Voice and Participation of Developing and Transition Countries | 30/01/2009 | Affirmative |
| 597 | Membership of the Republic of Kosovo | 03/06/2009 | Affirmative |
| 598 | Amendments to the statute of the World Bank Administrative Tribunal | 18/06/2009 | Affirmative |
| 599 | Transfer from Surplus to Replenish the Trust Fund for Gaza and the West Bank | 10/07/2009 | Affirmative |
| 600 | Forthcoming Annual Meetings of the Board of Governors of The World Bank Group and the International Monetary Fund – 2010 and 2011 Annual Meetings in Washington, D.C. | 28/09/2009 | Affirmative |
| 601 | Forthcoming Annual Meetings of the Board of Governors of The World Bank Group and the International Monetary Fund – 2012 Annual Meetings | 28/09/2009 | Affirmative |
| 602 | Financial Statements, Accountants' Report and Administrative Budget | 07/10/2009 | * |
| 603 | Allocation of FY09 Net Income | 07/10/2009 | * |
| 604 | Resolution of Appreciation | 07/10/2009 | * |
| IDA | | | |
| 221 | Membership of the Republic of Kosovo | 03/06/2009 | Affirmative |
| 222 | Financial Statements, Accountants' Report, Administrative Budget and Designations of Retained Earnings | 07/10/2009 | * |
| 223 | Resolution of Appreciation | 07/10/2009 | * |

| Resolution No. | Title | Adoption Date | UK Position |
|----------------|--|---------------|-------------|
| IFC | | | |
| 249 | Membership of the Republic of Kosovo | 03/06/2009 | Affirmative |
| 250 | Financial Statements, Accountants' Reports, Administrative Budget and Designation of Retained Earnings | 07/10/2009 | * |
| 251 | Resolution of Appreciation | 07/10/2009 | * |
| MIGA | | | |
| 82 | Enhancing Voice and Participation of Developing and Transition Countries | 30/01/2009 | Affirmative |
| 83 | Membership of the Republic of Kosovo | 03/06/2009 | Affirmative |
| 84 | Financial Statements and Report of the Independent Accountants | 07/10/2009 | * |
| 85 | Resolution of Appreciation | 07/10/2009 | * |

* Indicates resolutions passed during the Annual Meetings

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03/10 000 Produced for DFID by Stairway Communications, and printed on recycled material containing 80% post consumer waste and 25% totally chlorine free virgin fibre.

ISBN: 0 00000 000 0