

WORLD BANK INSTITUTIONAL STRATEGY: WORKING WITH THE WORLD BANK TO BECOME MORE EFFECTIVE PARTNERS

A REVIEW OF PREVIOUS INSTITUTIONAL STRATEGY

A1. The March 2000 Institutional Strategy Paper (ISP) for the World Bank Group (WBG) identified the reinforcement of the Bank's poverty mission as the key priority. It also stressed the need for the Bank to evolve into a better and more responsive development partner, able to forge more genuine and collaborative partnerships with clients, other donors and civil society, and for improvements in organisational effectiveness¹.

A2. An internal Department for International Development (DFID) review of progress in achieving the ISP's objectives found that in the last four years, significant strides have been made. In particular, the poverty mission is firmly embedded in the Bank's policies and objectives – although the challenge of further integration into the operations and culture of the institution remains. The effectiveness of the Bank's interventions has also been enhanced, both through increasing its responsiveness to the development needs of client countries and their populations, and through strengthening its systems to respond to these needs.

A3. Particular areas of progress have included:

- support for country-owned strategies and alignment of Bank interventions (both research and lending) with those strategies;
- greater harmonization and partnership with other donors - to reduce client transaction costs and build capacity in borrowing countries, as well as increased use of client systems in project preparation and implementation;
- improvements in development effectiveness; for example, simplification of operational procedures, increased focus on results through the project and program cycle, greater use of programmatic approaches, and ongoing lesson-learning and integration of best development practice into operations;
- more emphasis on communication, as well as advocacy on key global development issues - especially in the area of trade, the case for aid and Global Public Goods (GPGs);

¹ This emphasis on increased organisational effectiveness is also at the heart of DFID's 2003-06 Public Service Agreement (PSA) Objective IV on increasing the impact of key multilateral agencies in reducing poverty

- greater transparency and steps towards increased disclosure of Bank documents - including of Country Assistance Strategies (CASs), Economic and Sector Work (ESW) and other knowledge products;
- decentralisation of staff and tasks to the field;
- steps towards aligning the budget process with strategic priorities, including moves towards results-based management within a medium-term framework, and steps towards better aligning the skills base and staff incentives with strategic priorities, including through appropriate training;
- clearer linkages between country allocations in low-income countries and performance.

A4. The UK has been at the forefront of efforts to support this agenda, and the progress of the last few years has been considerable. The Bank's global reach, its highly-skilled staff, the scale of its financial and analytical resources, its capacity and influence in policy dialogue and advocacy, and the relative efficiency and effectiveness of its operations and procedures combine to make it a key institution in the global development architecture. The Bank has also played a major role in supporting the development of emerging international consensus on such key aid effectiveness issues as harmonisation and results.

A5. Nevertheless, there is still much to be done by the World Bank and other development agencies if we are to meet the emerging demands of the global development agenda - whether these be responding to the challenge of HIV/AIDS, combating poverty in difficult environments, or assisting low-income countries (LICs) in promoting higher and broad-based growth. It is essential that in responding to these demands the Bank continues to work closely with other partners, and it is in this area in particular that there is still the greatest requirement to make progress. Whether through demonstrating that it is open to learning from others and willing to allow other partners to lead, or through exercising greater selectivity in its activities, the Bank must make clear its commitment to partnership. Moreover, the Bank's stated commitment to harmonisation must underpin all that the Bank is trying to achieve, whether at a country level or through activities pursued at the centre.

B. LOOKING FORWARD: THE ROUTE TO MORE EFFECTIVE PARTNERSHIP

B1. To ensure that the World Bank continues to develop into a more effective, responsive and collaborative development partner, we need to build on progress so far. The Bank we are working towards will be an outward-looking institution that mainstreams poverty reduction in all its activities and is focused on achieving results on the ground; that is able to listen to and reflect both the voices of the poor and of its own borrowers; that delivers timely, adequate and predictable financial resources aligned with country-led strategies; that understands the poverty, social, political-economy and environmental implications of its interventions; that seeks both to innovate and to learn from others; and that builds strong and collaborative partnerships with clients, donors and civil society.

B2. Delivering on this agenda will require action in a number of areas, and if we are to achieve real results, we will clearly need to focus our efforts. In achieving this focus, a key issue for consideration is the link to DFID's wider corporate priorities over the next 2-3 years. These include the Bank's role in demonstrating and maintaining progress towards the Millennium Development Goals (MDGs), debt sustainability, work in difficult environments, delivering on Monterrey commitments, promoting aid effectiveness – including harmonisation - and Poverty Reduction Strategies (PRSs). It is also important to ensure that we make best use of our own partnerships – both internally, through collaborative working across DFID Divisions and regions, and externally, through building on those agendas which we already share with other shareholders, civil society and the Bank itself. Finally, we must ensure that the strategy is of relevance to all the Bank's programme countries: Middle-Income Countries (MICs), LICs, post-conflict countries and Low-Income Countries Under Stress (LICUS). With these factors in mind, we propose the following eight issues as key themes for our new World Bank Institutional Strategy³: focus on results, strengthening country-owned poverty reduction strategies, joining up at country level, working in difficult environments, appropriate financial instruments, finance on the right terms, scaling up progress towards the MDGs, and delivering on the Monterrey Consensus⁴.

³ It is important to note that, should there be agreement on a role for the World Bank in implementing the International Finance Facility (IFF), then our approach to the implementation of some of these themes may need to be revisited.

⁴ The Monterrey Consensus is the outcome document of the International Conference on Financing for Development (FfD), held on 18-22 March 2002 in Monterrey, Mexico. At this Conference, developing countries committed themselves to creating an enabling environment for foreign direct investment and for mobilisation of domestic resources through promoting good governance and pro-poor economic policies. In return, donor countries committed to providing better support for developing country efforts to achieve the MDGs, by providing more official development assistance, by enhancing aid effectiveness, by ensuring that the Doha Round of the World Trade Organisation (WTO) negotiations provides better market access for developing countries, by providing additional support to strengthen the capacity of developing countries to negotiate in international trade fora and

(continued)

1) Focus on results.

B3. The key to maximising the World Bank⁵'s effectiveness lies in further increasing its impact on the ground. Over the past few years, the international development system as a whole has placed increased emphasis on managing for results, with multilateral and bilateral donors coming together at two Round Tables on results in Washington (2002) and Marrakech (2004) . The World Bank has been a leader in the field of measuring and managing for results, and was charged under the Marrakech Action Plan with developing a global good practice guide for donors. Nevertheless, this is a complex area, and there is still more to be done to implement the Bank's results-based system in full. At the strategic level, there is a need to strengthen the focus on results in corporate strategy and budget documents, and with this in view, staff within the Bank are already working on a monitoring system to improve the link between results and resource allocation (including through establishing a series of key performance indicators at the corporate and Vice-Presidential Unit level). The Bank is also aiming to adopt a more strategic approach to planning which will focus on key trade-offs between different activities. These are important steps which need to be supported. Clear costings for new activities would also help prioritisation for allocating resources, and make clear the link between the budget and strategic priorities, measurable outputs and outcomes.

B4. Progress in developing a corporate results-based system at country level is most advanced for International Development Association (IDA) countries. To build country ownership, this system should be centered around local priorities, which in turn should ideally be derived from the MDGs and reflected in PRSs. Wherever possible, the system should draw on and strengthen countries' own systems for monitoring and measuring results, with statistical capacity building being a key element of this approach. The Bank should also utilise the outputs from this system in its dialogue with governments and in developing its country programmes.

B5. In all World Bank programme countries, the new results-based CAS should be the central instrument for binding the Bank to country objectives and ensuring a focus on results, that is to say progress against the MDGs and in reducing poverty. One key area for further work in this respect is in integrating the Bank's analytical work and instruments fully into the results chain. Another area of importance is for the Bank carefully to design evaluations in order to provide clear information on the

to address supply side constraints, by ensuring that the Heavily Indebted Poor Countries (HIPC) Initiative process provides heavily indebted poor countries with a genuine exit from unsustainable debt, and by taking steps to strengthen the voice of developing countries in the international financial institutions.

⁵ Where the term 'World Bank' is used, the text is assumed to be relevant to all the Bank's programme countries.

impact of specific projects or policies. In all countries, there is also a need to develop strong CAS indicators against which key development and poverty impacts of the loan portfolio can be assessed. Finally, it will be essential for staff promotion and progression criteria to reflect the Bank's increasing focus on results.

Objective 1: To monitor and support the deepening and full implementation of the Bank's results-based system.

Indicators:

- *production of new guidance on results-based CASs by end FY05, calling for clear linkages between higher-order results (progress against the MDGs and poverty reduction), Bank lending (outputs) and Bank deliveries (inputs), and for the peer review process to include an assessment of these linkages ; next CAS retrospective notes satisfactory progress on these issues;*
- *development of a results reporting system at country level by end FY06 in order to ensure Bank activities are focused on operations with clear poverty impact; reports on corporate performance to reflect this focus on outcomes by end FY07.*
- *production of a global good practice guide on managing for results in line with commitments in the Marrakech action plan;*
- *comprehensive reform of the budget cycle to introduce genuine results-based management by end FY06 on the basis of strengthened Unit Compacts, containing well-defined and strategically important Key Performance Indicators (KPIs); more extensive use of costings in budget to demonstrate trade-offs from FY05 onwards;*
- *establishment of a formal mechanism for monitoring the quality of STATCAP projects (the Bank's lending programme for statistical capacity building), covering both the process of developing the underlying statistical strategic plans and their content;*
- *X more countries able to report against the core IDA indicators identified for IDA 14 by end FY07 (baseline to be identified during IDA 14 negotiations).*

2) Strengthening country-owned poverty reduction strategies.

B6. DFID is strongly committed to promoting national poverty reduction strategies as a key mechanism for reducing poverty. Over the next 3-4 years most IDA countries are likely to develop their second (and some their third) PRSs. We believe that the PRS approach remains valid, that the World Bank shares this view and that our combined efforts should focus on those areas and countries where we can add

most value in accelerating progress towards the MDGs. This suggests a focus on IDA countries where capacities for PRS policy development and implementation are weak, where prospects for achieving the MDGs are poor, and where aid dependency is high. These criteria will include most of Sub-Saharan Africa but will also apply to some IDA countries in other regions, too.

B7. Looking forward, some of the main challenges facing the PRS process include:

- (a) Building domestic ownership of the PRS, and government accountability for its design and implementation to domestic stakeholders (parliament, civil society, especially poor people);
- (b) Strengthening processes and capacity (outside as well as inside governments) for monitoring and evaluation;
- (c) Strengthening capacity for analysis of (and dialogue around) poverty, social, economic and environmental impact of policy options.
- (d) Strengthening PRSs in areas where they have tended to be weak (eg. governance, corruption, growth and trade policies, reducing vulnerability, making faster progress towards health MDGs and sanitation targets, integrating national HIV/AIDS strategies).
- (e) Building public financial management (PFM)
- (f) systems, including links between the PRS, medium term expenditure frameworks, budgets and sector strategies and programmes.
- (g) Reducing transactions costs of aid and developing macroeconomic frameworks to absorb larger aid inflows.

We believe the Bank has a potential role to play in all these areas. Continued efforts are also needed to align Bank strategies, instruments and conditions to PRSs, and the Bank will also need to work with others better to understand the political and institutional dynamics of reform.

B8. In MICs, a strict application of the concept of the PRS is generally less relevant. Nevertheless, many middle income countries lack a mechanism for promoting strategic dialogue with the international donor community, which the PRS provides in poor countries. The Bank, and all donors, have a responsibility for promoting mechanisms for dialogue appropriate to each country setting. Some MICs have national development strategies or plans – either global or sectoral - which can and should serve as the basis for the Bank's activities, although the Bank may have a role in mainstreaming poverty issues into them. Where such strategies and plans do not exist, the Bank can play a valuable role in promoting their use. In all cases the Bank CAS should more clearly articulate the direct relationship between lending operations and poverty reduction.

Objective 2a: To strengthen alignment of World Bank support with PRSs in IDA countries, and national development plans in MICs

Indicators:

- *production of a written guidance note by end FY05 outlining how World Bank support should be aligned with national PRS priorities, processes and practices with respect to: vision, programmes, instruments and conditionality;*
- *establishment of a clear system for monitoring PRS alignment in line with the guidance by mid FY06; results of this system to be integrated into annual PRSP Progress Report, starting from 2006 Annual Meetings.*
- *all new CASs and revisions in FY06/07 in relevant countries implement guidance and demonstrate clear alignment to PRSs;*
- *for non-PRS countries, establishment of a system for monitoring the alignment of Bank support with poverty reduction and national development priorities.*

Objective 2b: To support the implementation of nationally owned PRSs by working in ways that strengthen national systems of budgeting and public financial management with domestic accountability; monitoring and evaluation; and policy analysis and planning (including assessment of the social and environmental impact of policy).

Indicators:

- *rising share of Bank analytical and advisory work in PRS countries focused on key systems outlined above;*
- *all Joint Staff Assessments (JSAs) of PRSs from end 2005 onwards to include comprehensive assessment of capacity building needs in these key systems, and actions taken by different donor agencies;*
- *Bank adoption by end FY05 of a strengthened international measurement framework for PFM (agreed by the OECD-DAC), which promotes country-owned reforms, and is based on an internationally agreed measurement framework and a donor-coordinated approach to assessment and monitoring of performance.*

3) Joining up at country level.

B9. To ensure that collaboration among donors and other partners at the country level is effective, the World Bank should continue to engage actively in donor coordination mechanisms and strengthen its engagement with parliamentarians, local NGOs, and the wider civil society. There is a particular need for greater donor

coordination in LICUS, post-conflict countries and MICs. However, the Bank should also be willing in all countries to allow other agencies to take the lead where appropriate, including in setting up donor coordination mechanisms and in the provision of analysis and assessments to inform country programming.

B10. Moving beyond coordination, both joint analytical work (particularly with the IMF and the UN) and joint planning on country strategies between the Bank and other donors should become the norm, as well as joint participation in missions and evaluations. This will be facilitated in part through working with the UN under the UN Development Assistance Framework (UNDAF) process to identify clear priorities for each institution in supporting and delivering PRSs. In parallel, the Bank's considerable progress on harmonisation of procedures with other donors should continue, in line with commitments made at the Rome High-Level Forum in February 2003. This work has been greatly facilitated by the Bank's ongoing efforts to modernise, simplify and streamline its procedures. However, there is still more to be done to implement the wider harmonisation agenda, including the phasing-out of Consultant Trust Funds which are a form of tied aid. Formal and informal staff incentives also need adequately to reflect the importance of consultation, harmonisation and good partnership behaviour.

B11. To facilitate effective engagement with donors and other partners, the Bank needs to continue the process of decentralisation of staff and functions, with appropriate delegation of authority to the field. Experience at the country level should also be rated highly in terms of staff development. This engagement will be facilitated by greater transparency of Bank documents at country level.

Objective 3a: To ensure that World Bank staff incentives and training programmes adequately reflect the importance of increased harmonisation, and the need to form effective partnerships with other donors, Parliamentarians, and civil society.

Indicators:

- *criteria on collaboration and coordination with external partners (including Parliamentarians and civil society); introduction of this Framework as the basis for internal assessment and promotion procedures;*
- *establishment of a new training programme by mid FY07, linked directly to all the criteria in the Competency Framework, including collaboration with external partners;*
- *client surveys to be carried out on an annual basis from FY05, and be used to inform staff appraisals; aggregated results from surveys to be included in reporting on Bank's corporate performance.*

Objective 3b: To ensure operationalisation of Rome commitments on harmonisation.

Indicators:

- *at least 50% of Bank's Economic and Sector work undertaken jointly with other donors in FY05, with rising share thereafter;*
- *integration of harmonisation indicators into Unit Compacts by end FY06;*
- *phase out of Consultant Trust Funds by 2006; rising share of new Trust Fund resources to go into multi-donor, programmatic instruments on an annual basis.*

Objective 3c: To press the World Bank to continue the process of decentralising its staff and functions, particularly country directors, technical specialists and task managers.

Indicators:

- *[specific targets on decentralization to be elaborated in the light of emerging findings from the Bank's Task Force on Organisational Effectiveness – however, our current objective is to seek considerably more decentralization for IDA countries in particular – and particularly a satisfactory solution to deliver client responsiveness and consistent dialogue in those IDA countries with no office];*

4) Working in difficult environments

B12. The World Bank is rightly at the forefront of efforts to achieve the MDGs in those countries with particularly severe development challenges, resulting from very poor governance, internal civil unrest and conflict, or a strained relationship with donors. Effective aid in these difficult environments requires a strategic and coordinated response from donors, based upon a solid understanding of the political context.

B13. The LICUS Unit, located in the Bank's Operations Policy and Country Services (OPCS) Vice-Presidency, has helped mainstream LICUS principles across the Bank, including policy and operations. LICUS principles, including innovative service delivery, feasible entry-level reforms and promoting domestic demand for positive change, have been incorporated in several country assistance strategies. In Sierra Leone, the Bank approved a transitional support strategy, grounded in an interim PRS, that focuses on zero-generation reforms, service delivery and donor coordination, among other areas. The teams working on LICUS and post-conflict within the World Bank have developed a joint process to assist and guide preparation of strategies in post-conflict countries. However, there is still more to be

done to ensure that the Bank's approach in difficult environments is fully consistent with LICUS strategies.

B.14. Meanwhile, in those countries where there is no CAS, the Bank needs to extend the application of its alternative strategy documents. While the current LICUS Trust Fund, which provides grant financing to LICUS countries, is a pragmatic response allowing the Bank to remain active even in non-accrual countries, a medium-term successor arrangement should be in place before it expires. More understanding is also needed of the appropriate levels and form of foreign assistance in poor policy environments to avert further decline, to prevent damaging regional spillovers, and to support basic services. In dealing with post-conflict environments, particularly, ensuring consistency between UN and World Bank approaches to disarmament, demobilisation and reintegration programmes will be key for successful transitions to peace. The Bank should work more closely with the UN to ensure that a coherent package of diplomatic, security, and economic tools are deployed by multilateral agencies to assist countries under stress.

Objective 4: To ensure that the Bank recognises the need to support development in difficult environments – both LICs and MICs – and is equipped to do so.

Indicators:

- *Medium-term successor arrangements to the LICUS Trust Fund in place by end of current TF lifetime;*
- *World Bank Board to have re-engaged in all LICUS countries (including those in non-accrual) without a CAS by end FY07; an ex post review of CASs in the worst performers to be carried out by end of strategy to see how consistent these are with LICUS strategies;*
- *Detailed analytical work on aid allocation in difficult partnerships in MICs and LICs undertaken by the Bank under the Development Assistance Committee (DAC) Learning and Advisory Process on Difficult Partnerships;*
- *FY06 Operations Evaluation Department notes satisfactory implementation of LICUS initiative;*
- *Package of incentives to encourage Bank staff to work in difficult environments endorsed by Executive Board.*

MIDDLE INCOME COUNTRIES AND THE MDGs

Nearly one third of the population in Middle Income Countries (MICs) live on less than US\$1 a day. A number of MICs are not on target to meet the MDGs, and a clear strategy for alleviating poverty is

required. Overall, MICs receive more concessional aid than what their poverty and MDG-related needs would suggest. Yet this assistance is not achieving poverty reduction.

DFID's draft "Strategy for achieving the MDGs: The Middle Income Countries"⁶ identifies a number of factors inhibiting the effectiveness of the international aid system in MICs. First, there is no international agreement on the purpose of aid in MICs, or on the appropriate terms and volume of assistance to MICs. Although all UN Member States and all of the multilateral development agencies have signed up to the MDGs, these are not embedded in MICs' own development plans. For many bilateral donors, poverty reduction is not the main motive for providing assistance to MICs.

Second, a clear framework to structure dialogue and coordination between donors and Government for reducing poverty and tackling inequality is missing. Third, a systematic approach is not in place for considering graduation, recognising countries' changing needs, acknowledging long-term aims, and ensuring a smooth progression to less concessional aid. Whilst the LIC/MIC distinction is useful, it masks important differences within each income group and prevents different approaches from being considered for meeting the MDGs. Finally, the aid architecture does not respond effectively to countries that are vulnerable to slipping back to LIC status.

What are the implications for the World Bank in MICs?

1. Allocate additional concessional finance to MICs only on a needs-based assessment. The general case for widespread use of blending (IBRD funds with grants) is not compelling. Subsidised lending should only be considered, and justified, for particular MDG-related activities, lesson-learning, and piloting innovative approaches. Where DFID, and other bilateral donors, already have committed grant finance for poverty reduction, there may be opportunities for blending within a broader partnership framework and to improve overall aid effectiveness.
2. Work with MICs to ensure a strong articulation in the CAS of how proposed activities link to national strategies for sustained economic growth, development and progress towards the MDGs. The choice of sectors for Bank engagement is a matter for agreement between the Bank and national governments. However, there should be a clear strategy, reflected in the CAS design, for how Bank activities at the country level (both lending and policy advice) will support national development priorities through clear links to national strategies, or plans, for development and poverty reduction (see *Theme 2*) – and in DFID programme countries, we will work closely with the Bank in taking this forward. There should also be strong CAS indicators against which key development and poverty impacts of the loan portfolio can be assessed (see *Theme 1*).
3. Work with others in support of a strategic and a results-focused framework for donor co-ordination at the country level. In many contexts the appropriate lead institution for donor co-ordination is not always evident. However, the Bank could play a valuable role in all cases by encouraging and promoting donor co-ordination and harmonisation at the sector and national level, mainstreaming poverty issues into national development strategies, and providing advisory input (see *Theme 3*).
4. Work with others towards creating a more flexible international system to ensure that countries are provided assistance according to needs, institutional strengths and to the profile of poverty. Some MICs are vulnerable to slipping back to LIC status, including those that have large numbers of poor people, have weak institutional environments and have high levels of debt. The Bank could play a valuable role in helping authorities to identify vulnerabilities at an early stage and ensure a coherent government/donor response for a smooth transition to stability and

⁶ DFID's MIC strategy uses the DAC definitions to classify middle-income status: whereby GNI per capita is between US\$746 and US\$9,206.

sustained growth. The Bank should also develop a clear graduation strategy from IDA to IBRD, which recognises countries' changing needs, and ensures smooth progression from more to less concessional aid (see *Theme 6*).

5) Appropriate financial instruments.

B15. The nature and form of the World Bank's lending has a significant impact on its ability to work with others and support national governments. Since programmatic lending facilitates harmonisation of Bank programmes with others, and reduces the burden of transaction costs on partner countries, the use of development policy lending should be increased. In particular, in higher-performing IDA countries, the proportion of Bank lending through Poverty Reduction Support Credits (PRSCs) should be increased. The World Bank should also make full use of new opportunities to engage in sector-wide programmes and other forms of pooled financing, and predictability of Bank financing should be enhanced through the development of multi-year financial instruments and the matching of tranche releases to national budget cycles. Finally, a minimum number of conditions should be attached to Bank programmes. These should reflect PRS targets, and be explicitly linked to areas critical to the programme's success.

B16. The Bank is committed to monitoring the impact of its policies and lending instruments on the populations directly affected. To this end, it already has a number of environmental and social safeguard policies, which are applicable to investment lending, and have been through a recent process of review and streamlining. It has also agreed to implement a Poverty and Social Impact Analysis (PSIA) for all Bank adjustment lending operations with significant distributional impacts. Both sets of procedures are undertaken in consultation with, or by, the borrower. However, there have been concerns about how to achieve the right balance between appropriate investigation and protection of vulnerable populations, and the broader developmental benefits implied. DFID is currently reviewing its own position on these issues and will monitor and work with the Bank in selected areas on safeguards and PSIA in order to achieve the best possible outcomes for affected populations.

Objective 5a: To encourage the Bank to make greater use of predictable multi-year programmatic lending in support of national poverty reduction and sectoral development strategies.

Indicators:

- *Bank CASs envisage a greater share of lending in programmatic forms – DPLs, PRSCs, and sector-support instruments – by end of strategy lifetime;*
- *an upward overall trend in the share of Bank investment lending that is pooled or jointly financed with other donors; within these jointly financed projects, sectoral*

performance criteria are set, and progress is reviewed, with the active participation of authorities and other partners;

- *in all PRS countries World Bank programme and investment lending disbursement and reviews synchronised with national budget cycles by end FY07; programme documentation is required explicitly to report on efforts made towards alignment with national budget process and planning cycles.*

Objective 5b: To press the Bank to ensure continued progress in streamlining its conditionality, monitor the impact of its programmes, and respond appropriately.

Indicators:

- *agreed Bank position by end FY05 on streamlining conditionality, and making operational recommendations on reducing the burden of conditionality applied appropriately across all Bank lending programmes at the country level;*
- *establishment of transparent monitoring system by mid FY07 to measure the combined weight of Bank/Fund conditionality;*
- *[further indicators awaiting DFID review of its position on safeguards]*

Adjustment Lending and Poverty and Social Impact Analysis (PSIA)

The World Bank has made a commitment to undertake PSIA for major aspects of their programmes. During 2002-03 the Bank funded 11 initial pilot PSIAs, with DFID supporting an additional 8 studies. These studies provided the basis for a rapid expansion in World Bank funded PSIAs and by early 2004 there were some 100 PSIA activities being carried out, with two-thirds of these based in PRSP countries.

These studies have provided useful evidence to inform decision-makers and have strengthened the process of domestic policy-making. Although the total impact of these studies has not yet been measured systematically, early evidence suggests they have influenced actual policy design in a number of countries. For example:

- In Malawi a study of privatisation of rural markets found that public ownership played an important role in food security, resulting in modifications to the policy of private expansion to safeguard social needs.
- In Zambia, a proposal to transfer land tenure from customary to state ownership was abandoned given the risk of increased corruption and poor management of land resources.
- In Armenia, a study of the reform of water utilities resulted in new legislation providing for extended payment plans for vulnerable users and free meters for the extremely poor.

DFID continues to advocate for the consistent use of PSIA for all Bank-supported reforms that have significant distributional impacts.

Objective 5c: To support and monitor the Bank's participation in the development of good-practice PSIA, and ensure that they are used to inform any reforms recommended, or conditionality imposed, by the Bank, where significant distributional impacts are likely.

Indicators:

- *continued active partnership by the Bank with DFID and other interested donors in the documentation of good practice PSIA; and production of briefs drawing on experience in different sectors and lessons learnt to guide future PSIA's;*
- *all Bank support to reforms identified in second generation PRSPs, with significant distributional impacts, to be systematically informed by PSIA;*
- *inclusion of a clear statement in any loan or program presented to the Board where PSIA has not been undertaken, explaining why PSIA was not used;*
- *a report showing demonstrable progress on implementation of PSIA in the Bank (and IMF) produced for 2005 Annual Meetings.*

6) Delivering on debt sustainability and providing finance on the right terms

B17. The Bank has central responsibility to ensure that unsustainable debts do not create an obstacle to poverty reduction. This will require effective and timely delivering of debt relief for countries where sustainability is a concern and ensuring that its own resources are provided on appropriate terms to provide for sustainability being maintained into the future.

B18. The Bank, together with the IMF, has an important role to play in ensuring the success of the Heavily Indebted Poor Countries (HIPC) initiative which provides debt relief to LICs. For interim countries (those between Decision and Completion Points), the Bank's core role is in supporting countries efforts to implement PRSs which underpin the triggers for irrevocable relief. Continued efforts by the Bank to press the case for eligible countries to receive full topping up will also be essential in ensuring that HIPC delivers robust sustainability as countries exit the process. For countries that have yet to reach Decision Point, the Bank must continue assistance in areas such as arrears clearance and supporting zero generation reforms that precede eligibility for HIPC relief. Of particular relevance to these countries is the need to ensure that the sunset clause is not implemented in a way which would prevent eligible countries, committed to poverty reduction, from receiving the debt relief which they need to achieve a lasting exit from unsustainable debt. Finally, the Bank and IMF need to do more to help post-Completion Point HIPCs receive all of the assumed relief from multilateral creditors, as well as from Paris Club, non-Paris Club and commercial creditors.

B19. With regards to lending terms, the use of grants for IDA countries should be directly linked to emerging World Bank and IMF analysis on debt sustainability, taking account of the overall concessionality of the resources available to each country. This is likely to be of particular relevance to LICUS. For IDA-eligible countries at the upper end of the scale, the Bank needs to develop a more flexible and transparent approach to graduation to IBRD (International Bank for Reconstruction and Development) lending.

B20. There is also a need for the Bank to develop an appropriate response to shocks, in collaboration with the IMF. Whilst there is scope for progress across the World Bank this issue is particularly germane to PRS countries and LICUS where concessionality necessitates the need to ration resources more strictly, complicating the design of responsive instruments.

Objective 6: To press the Bank to continue to move forward in implementing the Heavily Indebted Poor Countries (HIPC) Initiative and in establishing a clear, forward-looking, strategy for maintaining future debt sustainability in low-income countries.

Indicators:

- *90% of all HIPC countries which have reached Decision Point by end 2005 – and are committed to poverty reduction – reach Completion Point by end 2008;*
- *new Debt Sustainability Framework does not prevent countries with good policies from accessing the resources they need to achieve the MDGs;*
- *terms of assistance under IDA 14 are determined on the basis of debt vulnerability concerns, with grant assistance provided to countries for which long-term sustainability is at risk.*

HIV/AIDS PRIORITIES FOR THE WORLD BANK

DFID recognises that the World Bank has a vital contribution to make to the international fight against HIV/AIDS, as highlighted in the new UK strategy on HIV/AIDS. HIV/AIDS is one of seven corporate priorities for the World Bank, and it is one of the founding co-sponsors of UNAIDS (the Joint UN Programme on HIV/AIDS). It is a major financier for national AIDS programmes, including targeted support through its Multi-Country HIV/AIDS Programmes. In addition to scaling up resources to tackle the MDGs including the HIV MDG, World Bank action on the key issues of strengthening country-owned strategies and joining up is of particular importance to the international fight against HIV/AIDS.

Strengthening country-owned HIV/AIDS and Poverty Reduction Strategies: With the IMF, the World Bank has a critical role to play in making sure governments manage large-scale inflows of HIV/AIDS related financial assistance to maintain macroeconomic stability. As HIV/AIDS has previously been left out of Budget Planning processes, the World Bank's involvement in public expenditure management at the resource allocation level puts it in a strong position to make sure resourcing of HIV/AIDS is more integrated into these processes. As HIV/AIDS has often been covered in a compartmentalised or superficial way in PRSs to date, the World Bank also needs to have a role in

making sure that national HIV/AIDS strategies are integrated into country owned PRSs (see *Theme 2*).

Joining Up: HIV/AIDS is too often an area where donors are badly harmonised at country level, therefore the World Bank should aim to be particularly active in donor coordination mechanisms, and in harmonising donor support for coherent, country-owned PRSs and HIV/AIDS strategies. (see *Theme 3*) The World Bank should also support UNAIDS “Three Ones” agenda to improve donor harmonisation around HIV/AIDS. In addition, the World Bank must ensure that deployment of its own credits or grants for HIV/AIDS complement the support of others (see *Theme 5*)

At an international level, the World Bank should aim to strengthen partnerships with other key multilateral and bilateral HIV/AIDS actors, including living up to the responsibilities inherent in its role as a UNAIDS co-sponsor. This encompasses adhering to Programme Coordinating Board decisions and Unified Budget and Workplan commitments, and consulting other co-sponsors on new HIV/AIDS related policy or operational proposals through the UNAIDS Secretariat.

7) Scaling up progress towards the MDGs.

B21. The MDGs reflect the multi-dimensional nature of poverty, and both efficient services delivery and economic growth - led primarily by the private sector - are therefore essential to reaching these targets. Scaled up action is needed by all parties, including the World Bank, to ensure that the services that contribute to health and education – including water and sanitation, energy, and transport – work more effectively for poor people. The World Development Report (WDR) 2004 highlighted the fact that making these services work involves not only changing service delivery arrangements, but also reforming public institutions, putting poor people at the centre of service provision, and increasing the accountability of governments and service providers to their citizens. The World Bank must therefore remain committed to ensuring that initiatives and interventions to scale up and improve the delivery of human development and related services do not undermine country-led processes, or relationships of accountability. In particular, the Bank should avoid setting up parallel implementation and monitoring structures. The Bank should also improve its understanding of the institutional incentives within which service providers and policy makers operate, and apply this understanding to the design and implementation of Bank programming, in order to enhance the chances for sustainable and institutionalised reform.

B22. The Bank’s approach to the issue of public versus private provision of services should be based on evidence of what works best for the poor in different contexts. The Bank should encourage better service delivery mechanisms rather than more private participation per se within health, education and infrastructure sectors. The Bank should also make greater use of service delivery models which are based on IFC/IDA cooperation, in order to help address affordability concerns and access to the poorest.

B23. Real progress in achieving the ambitious growth rates needed for meeting the MDGs requires serious consideration of the role of the private sector. The Bank has a crucial role to play through ensuring that its private sector activities are contributing

to achieving pro-poor sustainable levels of growth. The Bank should continue to develop and implement its private sector strategies in ways which promote greater coherence, collaboration and harmonisation across the Bank Group⁷ as a whole. There is a particular need for such collaboration in relation to work on the investment climate, and to ensure that private sector activities including investment climate work are informed by investment climate diagnostic surveys. To facilitate such collaboration, the joint IFC/IDA Private Sector Development Team should be charged with directing the Bank's work in this area. The Bank also needs to build the capacity of the public sector in wider investment climate activities such as macro-economic stability, good corporate governance, legal and regulatory reforms, and trade policy reforms. More broadly, the Bank Group should seek to strengthen all its private sector activities with CASs, PRSPs and spending plans.

B24. The Bank's direct assistance to firms should be encouraged but needs to be country-driven and demand-led rather than input-focused and supply-side led. The Bank also has a key role to play in developing linkages between regional, multinational and local enterprises in order to harness domestic investment opportunities, access to markets, and development of skills. Finally, the Bank's important work in promoting corporate social responsibility among its partners should be continued.

⁷ The term 'Bank Group' refers to IBRD, IDA, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

Objective 7a: To ensure the promotion of good practice in public and public/private provision of infrastructure and social services

Indicators:

- *Increased allocation of Bank resources to programmes aimed at improving knowledge creation and dissemination around the poverty impact of different models of state and non-state provision, including best practices in PPP (such as the Public Private Infrastructure Advisory Facility – PPIAF);*
- *Demonstrable evidence by FY06 that this knowledge has influenced the Bank’s programmatic lending decisions at the country level.*

Objective 7b: To press for greater alignment of Bank Group private sector activities with PRSPs and CASs, and increased coordination and impact of non-commercial activities, including with other donors.

Indicators:

- *All non-commercial Bank private sector activities to be integrated within CASs by 2007;*
- *Clear evidence of linkages in major IFC/MIGA strategy documents between the institutions’ activities and private sector development needs as identified in CASs/PRSPs;*
- *Board decision requiring Bank programmatic lending decisions and IFC investment lending decisions to be informed by investment climate surveys.*

8) Delivering on Monterrey.

B25. Progress towards the MDGs, especially in low income African countries, has been insufficient to ensure that all goals will be met by 2015. In particular, pledges of increased, effective assistance arising from the Monterrey Consensus have not yet been realised at the country level in most low income countries. During various reviews of progress in 2005, pressure will be mounting to demonstrate meaningful evidence of accelerated progress towards the MDGs. The World Bank therefore has an important role to play in encouraging its members to keep to the commitments they made at Monterrey (see footnote 3), particularly in terms of the resources to be provided. Key to this work is the Bank’s annual Global Monitoring Report which should clearly define monitorable priority actions in order to reinforce accountabilities and enhance cooperation amongst all development partners. Also important is the Bank’s work on assessing and addressing absorptive capacity constraints at the national level. In all this work, it will be essential for the Bank to work closely with the UN, both in monitoring policies and the MDGs, and in developing mutually

reinforcing links between the Bank's work on absorptive capacity constraints and the UN's Millennium Project led by Jeffrey Sachs.

B26. In addition to making the case for additional aid resources and aid effectiveness, the Bank must continue to play a strong advocacy role on international trade, particularly with regards to the policy environment in developed countries. This advocacy should be accompanied by continuing efforts to promote trade facilitation and to tailor Bank lending activities to support capacity building and country-owned trade initiatives. The Bank also has a key role to play in highlighting the need for delivery on commitments made under the HIPC Initiative, and in emphasising the importance of GPGs. This should be done in continued close partnership with other key players, including the UN system and the Development Assistance Committee (DAC). Alongside this, the Bank must continue to make progress in implementing its own commitments at Monterrey, including enhancing the voice of developing countries in its governance structures, and strengthening its engagement with southern civil society.

Objective 8a: To press the Bank to demonstrate robust support for increased aid absorption based on sound analysis, by helping partner governments to assess a range of capacity constraints, and suggesting plans for tackling them.

Indicators:

- *widespread use by FY06 of guidelines produced at end 2004, building on an analytical framework for analysing, assessing and overcoming absorptive-capacity constraints to increased aid flows (prepared for 2004 Annual Meetings).*
- *support provided to further analytical work at the country level during FY05 in at least 8 countries with the potential to accelerate progress towards the MDGs (e.g. Burkina Faso, Kenya, Niger, Rwanda, Cambodia, Honduras, Albania and the Krgyz Republic). This should build on the practical analysis undertaken at the country level during 2004 in at least four pilot countries (e.g. Ethiopia, Ghana, Madagascar and Mali), and conducted in collaboration with key partners (including bilateral donors, the IMF and UN agencies).*

Objective 8b: To work with the Bank and other shareholders to make progress on all aspects of Voice agenda

Indicators:

- *full implementation of Terms Of Reference for IDA borrower representatives in IDA 14;*

- *demonstrable improvements in recruiting senior World Bank staff in open and transparent manner;*
- *publication of Board minutes within two weeks of Board discussions by end FY05; all Bank monitoring and evaluation reports made publicly available by end FY05; 50% of ESW publicly available by end FY05, with presumption of full disclosure by end FY07.*
- *agreement on a roadmap to introduce a package of measures for structural reform by end FY07.*
- *[awaiting indicator on Bank's relations with civil society]*

C. DELIVERING ON OUR STRATEGY

C.1 Delivering on the objectives in this strategy will not be something that the UK can achieve alone. If we are to succeed, it will be essential for us to develop strong partnerships with those who share our agenda, whether these partners be other donors, civil society groups or Bank staff themselves. It will also be essential for us to make full use of all the mechanisms we have at our disposal in order to deliver the strong messages which will be needed to achieve institutional change.

C2. As a major shareholder in the World Bank Group, the UK is well placed to engage in discussions at the Executive Board on the Bank's policies and practices, and many of the issues covered in this strategy will require considerable input at Board level. To be effective, it will be essential for us to work closely with other shareholders, and also be proactive in identifying opportunities for driving through important institutional changes, and then communicating these opportunities both to UK Government colleagues and to civil society partners. Part of this approach will involve ongoing efforts to pursue our objectives through discussions at the World Bank/IMF Spring and Annual Meetings. Specifically in relationship to the Bank's partnerships with others, we will work to strengthen further relationships between our office in Washington and the UK representations to other multilateral institutions (including the UN and the Regional Development Banks) in order to help promote synergies and closer collaboration between these institutions.

C3. In addition to having a seat on the Board, the UK is also a significant donor to IDA. During the strategy lifetime, negotiations will take place on both the fourteenth and fifteenth replenishments of IDA, offering important opportunities to influence the Bank's work as it relates to low-income countries. The UK has already published a statement of its objectives for the IDA 14 negotiations, and we will use this to help identify common ground between our own objectives and those of other donors. As the negotiations move forward, we will also ensure that progress is widely communicated both inside and outside Government, in order to assist others in providing input to the replenishment process.

C.4 Beyond our role as a shareholder and donor, the UK has an important relationship with the Bank as a development partner, both in developing policy on emerging issues, and in working together to deliver change at country-level. Relationships between DFID and the Bank are already strong, and we will continue to work closely with Bank staff to ensure that we are involved in the development of their thinking. However, we will also play an increasing role in holding staff to account for implementation of reforms that have been agreed in Washington. This will require strengthened linkages within the UK Government, in order to ensure that there is shared knowledge about these reforms, and that messages about implementation at country level are passed back to those who are engaging with the Bank in the centre.

C5. Such a wide-ranging approach to delivering on this strategy will require action by colleagues across the UK Government, and we will work hard to ensure that the objectives in the strategy are fully integrated into Departmental and individual workplans where appropriate. In order to maintain a focus for our actions and address areas of weakness, we will also review progress on an annual basis in consultation with senior World Bank staff.