

DFID INSTITUTIONAL STRATEGY PAPER FOR THE WORLD BANK GROUP: END OF CYCLE REVIEW

Introduction

The first DFID Institutional Strategy Paper (ISP) for the World Bank Group was published in March 2000. The ISP (copy attached at A) identified eighteen objectives which DFID should pursue through the instruments set out in Section D of the paper. This end-of-cycle review is being carried out to inform work on a new ISP.

Summary of Progress against Action Plan Activities

Objective 1: To provide support to the World Bank in seeing that its over-arching objective of poverty reduction is focused on achievement of the international development targets and to suggest how this might best be reflected in its revised Mission Statement.

2. In 1999, the World Bank launched the Comprehensive Development Framework (CDF) – the long term integrated vision of development at country level – and Poverty Reduction Strategy Papers (PRSPs) – demonstrating that poverty reduction was widely accepted as the ultimate goal of the Bank’s work. The Mission Statement “A World Free of Poverty” was finalised in the same year and included a commitment to ‘fight poverty with passion and professionalism for lasting results’. Moreover, the Communiqué which issued from the 1999 Spring Meeting of the Development Committee made a specific reference to the importance of the International Development Targets (IDTs).

3. In January 2001, the World Bank Group adopted a 3-5 year Strategic Framework which reaffirmed the Bank Group’s mission to reduce poverty, and confirmed its endorsement of the IDTs. The Framework set out how the Bank Group intended to align itself with the IDTs around the twin pillars of building the climate for investment, jobs and sustainable growth, and investing in and empowering poor people to participate in development. Following the 2002 Financing for Development (FFD) conference in Monterrey, the Bank formally embraced the Millennium Development Goals (MDGs) as the framework for scaling up its development efforts.

4. DFID has actively pressed the Bank to ensure that the IDTs (and later the MDGs) are further embedded in its work, and has resisted a few attempts from other Board members to get the Bank to step back from them. Although neither the goals nor targets are specifically mentioned in the Mission Statement, it is clear that the MDGs now provide the overall framework for all the Bank’s work.

Objective 2: To aim to ensure that the WDRs provide the framework for the elimination of poverty, including achievement of the international development targets, and to learn from the World Bank’s own thinking.

5. The World Development Report (WDR) 2000/01 on Attacking Poverty was published after some very public controversy, and proposed a three-pillared strategy for poverty reduction – Opportunity, Empowerment and Security. DFID was content with the broad conclusion of the report that economic growth was crucial for generating opportunity, but that this alone would not reduce poverty. We were also pleased to see the themes of the WDR being picked up in subsequent Bank strategies. However, we were disappointed that the report made little attempt to link its conclusions to progress towards the IDTs.

6. WDR 2001/02, “Building Institutions for Markets”, focused on the institutional structures needed for a well-functioning market economy and how such institutional change might take place. There was some sense in DFID that the final report represented a missed opportunity to apply the poverty focus and analytical perspective of WDR 2000 to the question of markets and their supporting institutions; and to provide a clear guidance to policy makers on reform priorities in this area. However, the clear poverty focus established in WDR 2000/01 was picked up again the following year in the 2002/03 publication on Sustainable

Development in a Dynamic Economy, which was the first WDR to be aimed (and timed for) at a UN summit (World Summit on Sustainable Development). DFID also strongly supported the conclusions of WDR 2003/04 on Making Services Work for Poor People, which we saw as a comprehensive report which provided new ways of thinking about services for poor people, and broke down traditional sectoral barriers.

7. DFID engaged actively with WDR 2000/01, including through building contacts with the drafting team, commenting on outlines and draft texts, and contributing to the Voices of the Poor study which - for the first time - sought the views of people living in poverty as background to the report. This engagement has continued in all subsequent WDRs, and we believe has brought benefits to the Staff of both institutions. Although we have not always agreed fully with all the ideas proposed in these Reports, DFID has generally learnt much from both the process and content of recent WDRs. Moving forward, the key challenge will be to ensure that messages issuing out of future WDRs are adequately disseminated in order to maximise the role of WDRs in provoking discussion and lesson-learning.

Objective 3: To support the implementation of the policy framework agreed under IDA-12, focusing on poverty reduction, and the importance of policy performance, linking this firmly to country allocations.

8. Prior to the start of the negotiations on IDA 13, IDA Deputies and Executive Directors asked the World Bank's Operations Evaluation Department (OED) to carry out a comprehensive review of IDA's performance in implementing commitments made during IDA 10-12. Overall, OED found IDA's implementation of total replenishment commitments - more than 150 in all - to be generally satisfactory, although there had been weaknesses in implementing commitments related to the environment and gender. OED concluded that IDA now needed to deepen and broaden the gains from the existing policy framework by focusing on implementation, adequately aligning resources to strategic priorities, and consolidating the IDA mandates.

9. In line with the OED's recommendations, the policy framework agreed under IDA 12 was reaffirmed and strengthened in the negotiations on IDA 13. Specific actions agreed, further to consolidate IDA's mandates, included strengthening development partnerships (with particular emphasis on alignment of country programmes to PRSPs, and harmonisation of practices and procedures with other donors); increasing selectivity; aligning IDA's administrative budget and programme priorities; and measuring results and tracking performance. Reports for the IDA 13 Mid-Term Review (MTR) in November 2003 demonstrated progress in all these areas. However, we will continue to press for further action. However, we will continue to press for further action, particularly on development partnerships and results-based management.

10. During the IDA 13 negotiations, the opportunity was also taken to review the performance-based country allocation system first introduced in IDA 12. A number of enhancements were made to the criteria used in the Country Policy and Institutional Assessment (CPIA), including sharpening the criteria on public expenditure and financial management and strengthening the alignment between the CPIA and the PRSP process. Another key change was an increase in the weighting given to governance criteria in the CPIA. However, at the IDA 13 MTR, Deputies were informed that Management might revert with a proposal during the IDA 14 negotiations to reduce this extra weighting given to governance, as the effects were felt to have been rather extreme. This is a move which we would support. Another issue discussed at the IDA 13 MTR was the weighting given to poverty in the country allocation system, and whether this should be increased. The Bank Staff paper concluded that no increase was necessary, due in part to concerns about absorptive capacity. However we continue to believe that IDA resources should be more heavily targeted on poor countries, given the institution's overall focus on poverty reduction, and this is something we will be pursuing in the negotiations on IDA 14.

Objective 4: To press for each Country Assistance Strategy to reflect a clear and measurable commitment to poverty reduction and the international development targets, taking account of all World Bank Group programmes.

11. In March 2003, the World Bank carried out its third Country Assistance Strategy Retrospective (CAS Retro III), a report designed to take stock of the Bank's progress in improving the quality of CASs. This Retrospective found that the poverty focus of CASs had improved, with 71% of CASs rated satisfactory or better, compared to 61% in CAS Retro II (produced in 2000). Moreover, the share rated highly satisfactory had risen from 11% to 32%. However, the share of CASs rated unsatisfactory remained the same at 11%. With regards to the coherence of World Bank Group programmes, there had been increased efforts to produce joint WB/IFC CASs, with 58% of the strategies analysed being joint products, compared to only 43% under CAS Retro II.

12. More generally, it is now standard practice for CASs to include a commitment to poverty reduction and the MDGs. In IDA countries, donors have also agreed that preparation of a CAS should normally follow completion or updating of a PRSP. Since July 2002, each IDA CAS has been preceded by a full PRSP, and has been underpinned by a current poverty analysis. These moves have been actively supported by the UK.

13. Looking forward, CAS Retro III concluded that reform efforts should be centred on ensuring that CASs are even more sharply focused on poverty reduction. In particular, it concluded that CASs should discuss country progress towards the MDGs; the alignment of country goals and CAS outcomes to achieving these goals; and the adequacy of available poverty analysis, and of the country's growth strategy to achieve sustained poverty reduction. If gaps in the poverty analysis and growth strategy exist, it recommended that the CAS should outline steps to address such deficiencies. We will continue to support further progress in this area. We will also push for increased efforts to develop CASs which reflect the work of the entire World Bank Group, including – where appropriate – that of MIGA.

Objective 5: To press the IMF and the World Bank to play their full part in delivering enhanced debt relief for HIPC countries, and ensuring a strong link to poverty reduction.

14. The IMF and World Bank have delivered their share of debt relief under the HIPC Initiative, in line with the framework of the Initiative. There has been considerable progress in implementing HIPC, although on-going conflict has caused delays. Of the 38 countries that could potentially qualify for HIPC relief, 27 have now done so, and have started to receive relief on their debt repayments, including those to the IMF and World Bank. Of the 11 remaining countries yet to qualify, eight are affected by conflict, and one has so far not opted for debt relief.

15. The UK pressed successfully for this relief to be linked to the poverty reduction strategy process, to ensure a strong link to poverty reduction. All of the 27 countries that have so far qualified for relief have produced an interim poverty reduction strategy paper, and 23 are now implementing a full poverty reduction strategy. These set out how savings from HIPC debt relief, together with all other forms of assistance, will be used to reduce poverty. Since 1999, when the enhanced HIPC Initiative was launched, spending on health and education in these 27 countries has risen by around US\$4 billion.

16. The key challenge for the future will be how to ensure that countries are able to access sufficient finance for their poverty reduction strategies, without starting to build up unsustainable debt burdens. This will require economic growth and access to markets, as well as sound debt management by countries. It will also require significant changes in the way that donors provide financing, to ensure that assistance is provided on appropriate terms. This means that the form in which resources are delivered – grants, loans or further debt relief – should be closely linked to a country's debt position. The UK government is liaising closely with on-going work by IMF and World Bank staff to develop a new approach to debt sustainability analysis, to underpin this approach.

Objective 6: To encourage the integration of environmental considerations into the Comprehensive Development Framework and Poverty Reduction Strategy Paper processes.

17. In 2001, the World Bank Board of Directors endorsed an Environment Strategy to guide the Bank's actions in the environment area. This strategy highlighted the importance of mainstreaming environmental issues into PRSPs. In the same year, the Bank also carried out a review of poverty reduction strategies and the environment. This review of 40 PRSPs and I-PRSPs found that the extent of mainstreaming varied between countries but that, on average the scores were low. However, the eight full PRSPs ranked relatively well against the I-PRSPs and some examples of good practice did emerge. Following the review, an issues note was produced by the Bank in August 2002 on mainstreaming the environment into PRSPs. A chapter on environment has also been included in the World Bank's Poverty Reduction Strategy Sourcebook.

18. A key concern remains the capacity of PRSP countries to carry out poverty-environment analyses themselves, as research carried out by national research institutions will provide one of the most persuasive arguments for dealing with poverty-environment issues in PRSPs. During 2001, four regional lesson learning workshops were facilitated by the Bank (with DFID inputs and funding) to support the mainstreaming of environment in PRSPs, involving representatives from more than 12 countries, both governmental and non-governmental. A number of follow-up activities were organised including an environmental mainstreaming plan in Tanzania and a study on poverty-environment indicators in Nigeria. Bank regional environmental units have also started to provide upstream inputs to PRSP preparation processes in priority countries. The concern now is to ensure that the Bank follows up the poverty-environment priorities identified in the PRSP with support through the PRSC and other instruments to achieve effective implementation.

19. DFID has been working closely with the Bank through the multi-agency Poverty Environment Partnership (PEP). In addition to assisting the Bank with south-south lesson learning on environmental mainstreaming, DFID is working with the Bank on country environmental analysis in Ethiopia, on a strategic environmental assessment of Ghana's PRSP and with the integration of the environment in the PRSC in Uganda. Through the PEP, we will work with the Bank on a review of country best practice for environmental mainstreaming, on integrating the environment into participatory poverty assessments, and on joint staff training. Our future focus is to encourage the World Bank to ensure integration of environmental issues in the implementation of PRSPs and other development plans.

Objective 7: To seek to influence the on-going review and formulation of a private sector development strategy, with a view to promoting coherence and collaboration across the World Bank Group as a whole.

20. Preparation of the World Bank Group private sector strategy was a long process, but the strategy was finally published in April 2002. The key strengths of the strategy from a UK point of view include a clear acknowledgement of the primacy of country driven processes such as the PRSP, and recognition of the need for proper governance and regulatory reforms in the public sector to enable a dynamic private sector. The strategy also balances the roles of the state and the private sector, advocating private provision of services only when it is clear that this is the best approach, and making clear that the World Bank will continue to have an extensive series of instruments to support public sector reform for countries which do not wish to adopt private sector approaches. Finally, the strategy gives significant consideration to proposals for improving the investment climate that benefit small informal and domestic firms and informal operations by the poorest, as well as large firms and foreign direct investment. These ideas should be developed further in the 2004/05 WDR, which will focus on the investment climate.

21. As mentioned above, coherence across the World Bank Group on private sector issues has also been strengthened at a country-level through the more frequent preparation of joint WB/IFC CASSs. Moreover, a new joint Private Sector Development (PSD) Vice-Presidency has been created, in order further to exploit synergies and maximise coherence between the Bank and the IFC.

22. The UK played a prominent role in ensuring that the private sector strategy was prepared, and engaged actively with the Bank on the form and content of the emerging strategy. Looking forward, we will continue to contribute to 2005/06 WDR by liaising closely with the WDR Team, making professional inputs into their work (for example, by offering a number of case studies on particular aspects of investment climate reform) and by supporting financially some of their Report consultation and dissemination activities regionally.

Objective 8: To press IFC to contribute fully to the World Bank Group's over-arching objective of poverty reduction, and to have an increased focus in frontier markets without access to international private sector finance.

23. IFC's new mission statement includes a clear reference to the poverty reduction mission, and the revised WB Group private sector development strategy explicitly recognises the IFC's role in poverty reduction. The shift in business has been gradual but is perceptible. Since 2000, the IFC has also supported an increased focus on frontier countries through its Frontier Strategy. However, in recognition of the fact that investments in frontier countries are likely to be more difficult to prepare, and that the Bank also needs to concentrate on capacity building and investment climate, the Board has decided not to set specific targets for investments in these markets. We endorse this approach.

24. DFID played a key role in getting IFC management explicitly to endorse a mission statement referring to poverty reduction. We have also strongly supported the move to frontier markets in the Board, and continue to remind the IFC that their role as a development institution must be fully taken into account in all their activities. Looking forward, the key challenge will be to ensure an efficient balance between frontier activities and investments in less risky markets.

Objective 9: To support the introduction of new policies into MIGA to increase its development effectiveness, and to press MIGA to implement its intentions.

25. MIGA remains a small institution although it has grown substantially in financial terms in recent years. As of June 2003, total guarantees issued since MIGA's inception in 1998 exceeded \$12 billion, bringing the estimated amount of foreign direct investment facilitated to more than \$50 billion. There has been a gradual increase in work in IDA countries over the past few years, with 19 of the 37 projects approved in FY03 being in IDA eligible countries and eight in SSA. However, more progress is needed. MIGA has been proactive in trying to facilitate more South-South investment but still has only a few success stories. MIGA publishes regular papers on its development impact, although its methodology in measuring this impact needs work. In 2001, the Operations Evaluation Group (OEG) was set up with a view to improving poverty focus and general effectiveness. MIGA has also adopted social and environmental guidelines for investment and has appointed an independent compliance officer.

26. DFID's main interactions with MIGA have been with its staff in Washington and in Board interventions. UKDel have pressed for greater attention to Africa, and questioned projects where the added value of MIGA's participation has not been clear. MIGA also consulted Evaluation Department in DFID when looking at its performance assessment procedures.

27. Looking forward, there is scope for the content of MIGA's portfolio to increase with more emphasis on riskier markets. However, as an institution with a fairly narrow financial base, there is also a financial case for ensuring wide geographical coverage before this is done. Perhaps the major issue to consider in the near future is the appropriate role of MIGA in a business where the private sector is expanding its operations. This implies both threats and opportunities for MIGA. In particular, DFID would like to see a more strategic and coordinated approach to the use of guarantees by the World Bank Group, with an assessment of the comparative advantage of different arms of the WB Group. We should also look for improvements in methodology on assessing impact although this should be placed in the context of the staffing implications for the institution.

Objective 10: To work with other contributors to support the World Bank in implementing fully its strategic vision for enhancing the development process through the Comprehensive Development Framework.

28. In late 1999, the World Bank Board asked the OED to assess the implementation of the CDF framework. In keeping with CDF principles, a multi-partner evaluation was carried out, overseen by a 30-member Steering Committee and a 5-member Management Group, with OED providing the evaluation secretariat. The evaluation found that the CDF had led to a number of positive changes in donor behaviour, but that these changes were fragile, with dedicated and constant attention being needed by top leadership in both donor countries and recipient countries to ensure that momentum was sustained. In particular, further research was needed on how to build up country-owned monitoring and evaluation systems, and expand the involvement of civil society and the private sector in the CDF process.

29. The key step in taking forward the CDF principles has been the development of Poverty Reduction and Strategy Papers (PRSPs). Despite a number of challenges in implementation, PRSPs are now universally accepted as the framework for sustainable poverty reduction in low-income countries. During FY03, the number of full PRSPs reached 32, with a number of other countries along the track to PRSP completion. Looking forward, key challenges include further improving the alignment of Bank programmes (including Economic and Sector work and other instruments) with PRSPs, improving donor co-ordination, aligning government budgetary priorities with PRSPs, widening the breadth of consultation, and improving the depth of analysis and realism of target-setting. We would also like to see PRSP equivalents prepared for Middle-Income Countries.

30. DFID was closely involved with the CDF process from the outset. IFID funded a secondment to the WB's CDF Secretariat from September 1999 to June 2002, and hosted the September 2001 CDF Focal Point meeting in London which brought CDF and PRSP processes together for the first time. Evaluation Department also worked with the Bank on the CDF evaluation. This close engagement has continued with the PRSP process, and has included providing substantial contributions to the 2002 PRSP Comprehensive Review, and engaging with World Bank staff through country offices and through regional forums such as the Strategic Partnership with Africa (SPA). We have succeeded in influencing the Bank's position in several respects: its approach towards participatory methods, shaping PRS-monitoring and review procedures, opening-up the Joint Staff Assessment (JSA) process, reducing and streamlining conditionality in programme lending, securing acceptance on the need to have Poverty and Social Impact Analysis (PSIA) conducted of major reform programmes, increasing WB's (CAS) alignment with national priorities and systems, and making progress in getting the World Bank to harmonise with other partners. In a few countries, DFID offices have developed common approaches with the Bank on supporting national PRS processes. We have, however, been less successful in developing a G7 consensus on the Boards behind these issues.

Objective 11: To encourage improved co-ordination among the Multilateral Development Banks, particularly given the close partnerships required under the Comprehensive Development Framework.

31. The MDB Presidents have issued four joint statements in the last two years, providing a strategic framework for MDB collaboration and coordination. These cover a general framework for stronger partnership among MDBs, coordinated MDB/IMF responses to the global situation, collaboration on a results-oriented approach to development, and gender equality. They have also endorsed a joint report articulating a common MDB approach to the provision of global public goods. In addition, Memoranda of Understanding have been signed between the World Bank and each RDB, and between AsDB and EBRD, based around the CDF principles. Each has a specific operational work plan or annex to be revised and updated regularly.

32. Specific work on harmonisation between the MDBs is underway in a number of priority areas: financial management, procurement, environmental assessments and evaluations. This work is linked to the OECD-DAC Task Force on Donor Practices and has

led to a number of harmonised documents (eg master bidding documents and a common framework for environmental assessments). In February 2003, MDBs and the DAC co-sponsored a High Level Forum on Harmonisation in Rome which led to broad political commitment for harmonisation; prior to the Forum, the RDBs jointly sponsored regional workshops to disseminate good practice and build ownership. Work is also underway in a number of countries to pilot country-based harmonisation efforts. In addition to harmonisation, several technical groups have been set up to build greater strategic coherence across MDB operations and strengthen opportunities for collaboration. Issues covered include gender, poverty, financial sector reform and governance and corruption.

33. At a country level, there has been a gradual but steady improvement in co-ordination and cooperation. The advent of PRSPs has created a focus for this cooperation and all MDB country strategies are now supposed to provide a clear picture of other Banks' activities in that country. However, the World Bank's own assessment is that well co-ordinated strategies that are complementary in nature and play to the strengths of each MDB in a given country will take at least one cycle of PRSPs to put in place. Collaboration is also increasing in analytical work and advice to governments, although tensions continue where staff from the different institutions reach different conclusions. Tensions also arise from the World Bank's special role (with the IMF) in preparing Joint Staff Assessments of PRSPs.

34. The UK has played a significant role in encouraging all MDBs to align assistance with PRSPs, particularly in the context of donor reports. We must continue to press them to be selective in the activities they undertake, concentrating on their particular comparative advantages. They should also continue their work on harmonising policies and procedures, with a particular focus on country level implementation.

Objective 12: To encourage effective collaboration between the World Bank and the IMF, including in situations of financial crisis, to ensure that proper account is taken of the needs of the poorest.

35. DFID and HMT have been active in pushing both Bretton Woods institutions to be more clear in defining their respective roles and improve their collaboration in key areas. However, efforts have been more focussed in country programme design and implementation than at the policy or thematic level, and directed more at LICs than MICs.

36. In late 2000 the President of the World Bank and the Managing Director of the IMF set out a framework for improved cooperation between the two institutions. An important area of cooperation has been in the implementation of the Poverty Reduction Strategy (PRS) process and in the related Heavily Indebted Poor Countries (HIPC) initiative, which provides debt relief to low-income countries. For the PRS approach a Joint Staff Assessment (JSA) of countries' Poverty Reduction Strategy Papers (PRSPs) is produced, and the UK has been instrumental in ensuring that a lead institution is identified for each aspect of the JSA, in line with the institutions' respective core competencies. The HIPC initiative has also required close collaboration between the institutions, which jointly carry out debt sustainability analysis of countries, and increasingly now conduct joint missions. This minimises the burdens placed on developing countries and enhances consistency between IMF and World Bank programmes.

37. The UK has actively supported the joint work on financial sector issues with a view to minimising the regularity and severity of financial crisis. Of particular significance is the ongoing joint work on Financial Sector Assessment Programmes (FSAPs), aimed at assessing countries' financial sector vulnerabilities and reform priorities. The UK has also applied high profile support for joint institutional Reports on the Observance of Standards and Codes (ROSCs) aimed at enhancing financial sector transparency and alignment with international norms and best practise.

38. A further area in which the UK has actively pushed for progress from both institutions is for Poverty and Social Impact Analysis (PSIA) of programme reforms. These consider the actual or potential socio-economic impact on poor people associated with particular policy reforms. When necessary, the PSIA helps to identify the steps that have been taken either to

redesign policies and/or to mitigate their adverse effects and to enhance the positive ones. To help the World Bank and IMF move more quickly on PSIA, we are supporting them in developing practical approaches to this work, including by funding six pilot studies. We are also seconding two members of staff to work with the Bank and Fund on PSIA. Again, a key issue here has to be in defining the core responsibilities of the respective institutions.

Objective 13: To encourage closer co-operation between the World Bank and the UN agencies, recognising the former's role as the largest source of multilateral development assistance and the latter's role as a leading provider of technical co-operation.

39. Consultation and co-ordination between the World Bank and UN agencies at the corporate level has intensified over the past few years, and this co-operation was given particular impetus by the events leading up to and following the Monterrey Consensus. The Bank seconded staff to the joint FFD secretariat and was an active participant in both the preparatory process and the final meeting. Following the adoption of the MDGs, a broad based UN/World Bank work programme was put in place covering country and global monitoring (with the UN leading on progress towards MDG outcomes and the Bank leading on policies and institutions for achieving the MDGs); research and analytical work; and incorporation of MDGs into country strategies. Collaboration to date appears to have been reasonably effective, although there is an ongoing danger of duplicating work, particularly in the area of global monitoring.

40. At a country level, the UN has endorsed and adopted the CDF/PRSP approach as the framework for development co-operation; and after initial tension, the CDF and PRSP initiatives are generally resulting in closer coordination in the field. In late 2001, a multi-donor trust fund was established to improve coordination around PRSPs, with joint World Bank and UN management of the funds. Joint work in specific sectors with the relevant UN agency is common, and the increased decentralisation of Bank staff has led to some effective working relationships, including joint leadership of donor groups. Steps are also being taken to allow the Bank to utilise the capacity of the UN system more effectively, including through allowing Bank projects to be managed in line with UN procedures. However levels of co-operation can be dependent on individual personalities, and are also often fragile and subject to inertia; there is still much to be done to improve relationships across the board.

41. DFID has been active in promoting the importance of Bank/UN engagement both in Washington and at country level. Bilateral meetings are held between the UK Delegation to the WB/IMF and the UK Mission to the UN, and we also support the Philadelphia Group of like-minded in Washington and New York, although this group has yet to achieve a strong practical focus.

42. Despite significant improvements in UN/World Bank relations at HQ level, there is still more to be done at country level. In particular, we need to find ways to promote more systematic engagement between the Bank and UN, which makes such engagement less reliant on personalities. This may involve introducing a requirement for Bank and UN staff to work together as part of a more coherent approach to design, implementation and evaluation of UN Development Assistance Frameworks (UNDAFs). At an institutional level, one of the key challenges is to ensure that the Bank works closely with the UN on its global monitoring of policies and institutions to achieve the MDGs.

Objective 14: To work with the World Bank to see that the directions established during the Strategic Compact are fully implemented in ways which will improve its developmental effectiveness, leading to the delivery of higher quality lending programmes to borrowing countries.

43. In March 2001, the WB produced a public assessment of progress on implementation of its Strategic Compact. In our view, this presented a fairly balanced picture of achievements since 1997. Successes included a much stronger poverty focus, including a corporate commitment to the IDTs; decentralisation of a significant number of staff and operations; measurable improvements in project quality; improved co-operation with the IMF and, to a

lesser extent, other multilateral and bilateral agencies; and the renewal of information systems. However, projected cost savings had not been realised, and the results in relation to staffing were also of some concern. In particular, there had been a considerable expansion in the size of top management, and a fairly minimal change in the Bank's skill mix – although this primarily reflected problems in implementation, rather than a lack of will. Overall staffing levels also remained dropped less than originally intended, although within the levels approved by the Board.

44. In January 2001, the Bank produced a Strategic Framework for the following 3-5 years, building on the priorities of the Strategic Compact. Key policy objectives included the alignment of resources with Bank objectives; the primacy of a country-level focus; an emphasis on performance measurement; and harmonisation of policy and operations with others, including the UN system. The Bank has placed considerable emphasis on implementation, and a Strategy Update paper is produced annually to take the Framework forward.

45. In Board meetings, we have welcomed the Bank's increased focus on outcomes, and the introduction of a multi-year budgetary framework to improve flexibility and predictability. We have also urged the Bank to show a stronger commitment to further decentralisation of both posts and functions, and to embrace whole-heartedly the need for effective partnerships as part of the PRSP approach. There has been considerable progress in both these areas, although there is still more to be done. Other key challenges include reallocating existing resources to reflect changing priorities, and increasing selectivity at both institutional and country level. Finally, it will be important to ensure that the Bank's focus on country-level processes is maintained in the context of current efforts to scale up progress on the MDGs. There has now been achieved for the Education for All Fast Track Initiative (FTI), and we will press for similar approaches in the health and water sectors.

Objective 15: To work with all parts of the World Bank Group, other donors and borrowers to improve the quality and impact of donor supported projects and programmes, particularly through evaluation systems which measure development impact.

46. In June 2002, the Multilateral Development Banks and the DAC organised an international round table on Better Measuring, Monitoring, and Managing for Development Results. Following this round table, the World Bank devised a conceptual framework for its own work on results measurement, covering three areas: country focus and ownership; Bank strategy and instruments; and corporate reporting and staff learning and incentives.

47. Central to the World Bank Group's work on evaluating developmental impact is the results-based CAS. This new CAS design should ensure that each CAS sets out clearly the choice of Bank interventions in terms of the country outcomes to which they are intended to contribute, the 'results chain' that links actions to outcomes, and the benchmarks for measuring and monitoring progress – all in the light of partners' contributions. Five pilots were launched in FY03, and the programme is due to be rolled out in FY04. However early results-based CASs have been overly complicated, placing an excessive monitoring burden on both the Bank and developing countries.

48. In addition to work on the results-based CAS, Bank Staff have been developing a specific Results Measurement System for IDA, as requested during the IDA 13 negotiations. This system is in many ways a prototype for the Bank's wider work on measuring and managing for developing results, and is therefore an important exercise. During the IDA 13 negotiations, an interim system was set up which focused primarily on Bank Economic and Sector Work (ESW) inputs. However, work is now underway on an enhanced system to be introduced under IDA 14, which will aim to monitor country outcomes against a set of core indicators, and also IDA's contribution to these outcomes. Discussion is ongoing about the precise indicators to be included in the core set, with pressure from a number of shareholders to include additional indicators. This move raises a number of concerns, particularly in relation to the reporting burden on developing countries.

49. The UK has played an active role in encouraging the Bank to focus on results management, and we welcome the attention that has been paid to this issue. However, it is essential that in seeking to measure institutional development impact, the Bank does not undermine established country-led processes. In particular, it is essential that work on indicators should be accompanied by support for statistical capacity building, and that these indicators are limited in number and closely linked to achievement of the MDGs. It is also important that associated corporate targets are developed in a bottom-up way, building on the PRSP and the results-based CAS. With regard to the CAS results framework, we will work to ensure that the new design can be used to guide incentives and behaviour on an ongoing basis, rather than serving simply for ex-post evaluation.

Objective 16: To work closely with the World Bank Group on a set of international development indicators, linked to support for statistical capacity building in borrowing countries, to maintain and measure progress towards the international development targets.

50. International attention to statistical capacity building has grown significantly over the past few years. Similarly, there is increasing interest among development agencies in formulating a set of international development indicators to be used to measure progress against the MDGs. The UN has begun work to compile a global database of MDG indicators, building on the expertise of relevant international agencies. The Bank is providing poverty indicators for this database and is collaborating with the IMF on debt and the WTO on trade indicators. The Bank is also a key player in the inter-agency PARIS 21 initiative, set up in November 1999 to improve national and international statistics.

51. At an institutional level, the IDA 13 Donors report (July 2002) placed specific emphasis on the need for IDA to monitor and manage for development results. As part of this work, the Bank is developing a core set of country outcome indicators, largely based around the MDGs, against which IDA's efforts will be judged under IDA 14. It is clearly acknowledged by both the Bank and IDA Deputies that this work will need to be accompanied by strong IDA support for countries' efforts to build their data capacities and institutions. The Bank has also set up a more general programme of statistical capacity building, offering technical assistance to its member countries through a multi-donor trust fund (established late 2000) and a newly-established lending program (STATCAP). This is particularly important as the OED evaluation of IDA 10-12 noted fairly high levels of dissatisfaction among Bank staff and country clients with the level of local capacity building for data collection.

52. The UK has played a leading role in promoting statistical capacity building both in the Bank and more widely. We have been a significant contributor to STATCAP and have also seconded a DFID statistician into the Bank's Development Data group, to support their work on improving global data on progress towards the MDGs, and their work on statistical capacity building.. In addition, we are funding IMF technical assistance to countries in Anglophone Africa aimed at helping them implement the General Data Dissemination System (GDDS).

53. It will be important to ensure that the Bank continues its efforts to support statistical capacity building, particularly in the context of IDA. The Bank's work on a core set of country outcome indicators should also provide some value. However, we must ensure that these indicators remain closely linked to the MDGs and that the core set does not continue to grow. It is also essential that these indicators are not used to impose top-down targets on developing countries.

Objective 17: To press for the Inspection Panel to be extended to include IFC and MIGA projects and programmes, in line with the IDA-12 Deputies' Report.

54. The Inspection Panel's mandate does not yet extend to IFC and MIGA projects. However, in 2000, IFC and MIGA established a Compliance Adviser and Ombudsman to audit compliance with safeguard policies and carry out a mediation function. To date, they have responded to a dozen or so complaints, in a thorough and professional manner.

55. We will continue to monitor the work of the Compliance Adviser and Ombudsman. However, at present we do not feel there is a need for any further action.

Objective 18: To aim to ensure, through active participation in the current review of IBRD and IFC financing, that the World Bank Group has the financial capacity necessary to fulfil its key objectives, and that the approach agreed to any necessary strengthening of financial capacity look first at the Bank's internal efficiency and takes full account of the concept of burden sharing.

56. IBRD long-term financial capacity has not changed significantly over the past few years and progress reports to the Spring and Annual Meetings have indicated that finances are in order. Recent concerns have been raised over high levels of pre-payment of IBRD loans, and the increased riskiness of the portfolio, with net income projected gradually to decrease in the coming years. Projected post-shock growth is also considerably below the Bank's target of 3%. However the financial situation generally remains stable and a General Capital Increase (GCI) has not been ruled – nor is one under discussion. Transfers to IDA and HIPC remain secure, and the Bank is taking active steps to increase the usability of its paid-in capital.

In IFC, a similar situation prevails, with no current need for discussions on a GCI. IFC is still managing to out-perform most comparable IFIs and is taking its organisational efficiency/cost control seriously. For MIGA, the Council of Governors approved a resolution in 1999 for a GCI of \$850 million. Members have since contributed \$655 million (or 77%) of this amount; when further pledges are converted, this should rise to \$824 million, or 97%. The UK's share of MIGA is now \$90 million, making us the 4th largest shareholder. The agency also received a \$150 million contribution to its recapitalisation from the World Bank, thereby ensuring reasonable burden-sharing.

DFID/UKDel keep a watching brief on the capital adequacy of all WB Group organisations and participate in Board and Committee discussions as appropriate. We agree with other donors that before any formal discussions of a GCI, WB management should continue to explore options for better use of existing resources. We also need to continue to look at the balance between IFC's commercial and non-commercial activities.

Conclusions

Since the first Institutional Strategy Paper was written in 2000, there have been a great deal of changes both within the World Bank and in the development community as a whole. International endorsement of the Millennium Development Goals and of the PRSP approach have been some of the most striking achievements of the past few years, but there have been a great number of other lower-level developments which have made an important contribution to improving development effectiveness. The Bank itself has made substantial progress in a number of key areas including HIPC, performance-based allocations, collaboration with other donors, results management and statistical capacity building. The UK has been actively engaged on all these issues, and has worked increasingly closely with the Bank with a view to strengthening the impact of our joint effort.

Nevertheless, despite the substantial progress which has been made, this review highlights a number of areas where further work will be needed to achieve our shared agenda, and we will now factor this information into our work on the new ISP.