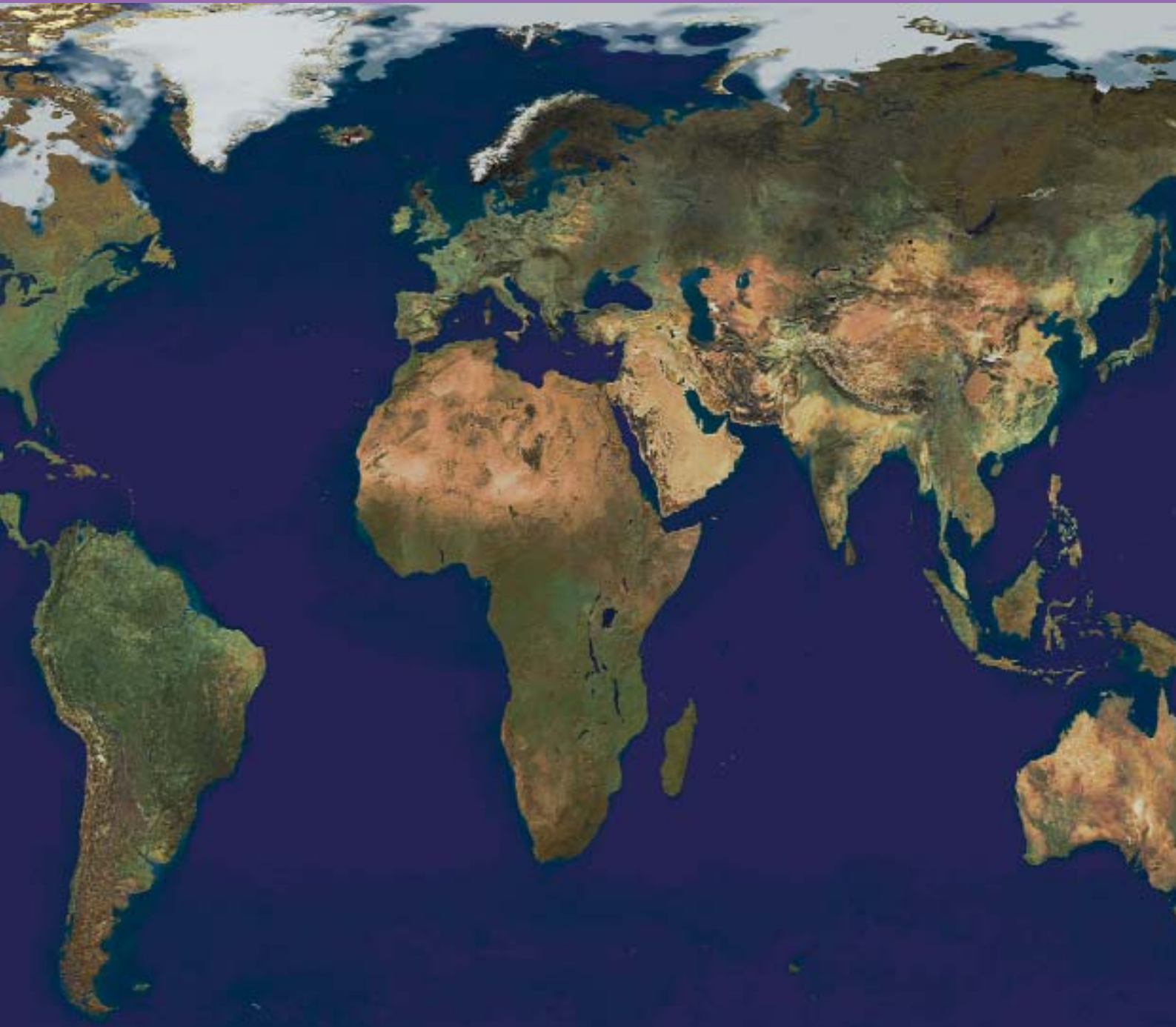


Working in Partnership with

The World Bank



Department for International Development

The Department for International Development (DFID) is the UK Government department responsible for promoting sustainable development and reducing poverty. The central focus of the Government's policy, based on the 1997 and 2000 White Papers on International Development, is a commitment to the internationally agreed Millennium Development Goals, to be achieved by 2015. These seek to:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

DFID's assistance is concentrated in the poorest countries of sub-Saharan Africa and Asia, but also contributes to poverty reduction and sustainable development in middle-income countries, including those in Latin America and Eastern Europe.

DFID works in partnership with governments committed to the Millennium Development Goals, with civil society, the private sector and the research community. It also works with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission.

DFID has headquarters in London and East Kilbride, offices in many developing countries, and staff based in British embassies and high commissions around the world.

What are Institutional Strategies?

Institutional Strategies (ISs) are prepared for the main multilateral development institutions with which DFID works, and are normally produced every three years. ISs set out how we aim to contribute to achieving our White Paper objectives with each of the institutions concerned. The preparation of ISs is a consultative process involving the institutions themselves and a range of civil society groups and other contacts.

Department for International Development
September 2004

World Bank Institutional Strategy: Working with the World Bank to become more effective partners

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A. Summary

A1 This Institutional Strategy considers how the UK Government can work with the World Bank over the next three to four years to achieve its over-arching objective of contributing to the elimination of poverty.

A2 The World Bank's key strengths lie in its global reach, 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. Nevertheless, there is still much to be done by both the Bank and other development agencies if the emerging demands of the global development agenda are to be met. It is essential that in responding to these demands, the Bank continues to work closely with other partners, and it is this area in particular that there is still the greatest requirement to make progress.

A3 As the World Bank Group's joint fourth largest shareholder (around 5%), and as a major contributor to its concessional lending arm, the International Development Association (IDA), the UK recognises its responsibility to work with the Bank to continue to maximise its developmental effectiveness. This paper sets out how we intend to deepen and strengthen our relationship with the Bank through a series of objectives which centre around helping the World Bank to:

- Maintain and improve its focus on country-level results;

- Strengthen country-owned poverty reduction strategies;
- Join up at country level with donors and other stakeholders;
- Provide appropriate assistance to support development in difficult environments;
- Match its use of financial instruments to individual country circumstances;
- Deliver on debt sustainability and provide finance on the right terms;
- Scale up progress towards the MDGs;
- Deliver on the commitments it made at the Financing for Development Conference in Monterrey.

A4 To achieve the objectives in this strategy, it will be essential for the UK to use all the tools at its disposal to bring about change. Many of the issues covered in this strategy will require considerable input at Board level, and in the context of IDA replenishment negotiations. However, the UK also 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. In all these relationships, it will be essential to develop strong linkages with others who share our agenda, whether these partners be other donors, civil society groups or Bank staff themselves.

B. Review of previous Institutional Strategy

B1 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.

B2 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.

B3 Particular areas of progress have included:

- support for country-owned strategies and alignment of Bank interventions (both research and lending) with those strategies;
- greater harmonisation 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, an 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);
- 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 (LICs) and performance.

B4 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.

B5 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 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.

¹This 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.

C. Looking forward: The route to more effective partnership

C1 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.

C2 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), sustainable development commitments, 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 Strategy²: 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 Consensus³.

1) Focus on results

C3 The key to maximising the World Bank⁴'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.

C4 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. A results based

² 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.

³ 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 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.

⁴ Where the term 'World Bank' is used, the text is assumed to be relevant to all the Bank's programme countries.

approach also needs to reflect the long-term national priorities as identified by the countries themselves. In addition, 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.

C5 In all World Bank programme countries, the new results-based Country Assistance Strategy (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 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.

2) Strengthening country-owned poverty reduction strategies

C6 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.

C7 Looking forward, some of the main challenges facing the PRS process include:

- (a) Building domestic and local ownership of the PRS, and government accountability for its design and implementation to domestic stakeholders

(parliament, local government, civil society, and the wider population);

- (b) Strengthening processes and capacity (outside as well as inside governments) for monitoring and evaluation, including at local levels;
- (c) Strengthening capacity for analysis of (and dialogue with key stakeholders on) the 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) systems at national and sub-national levels, including links between the PRS, medium term expenditure frameworks, budgets and sector strategies and programmes;
- (f) Reducing transaction 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 need to work with others better to understand the political and institutional dynamics of reform. The Bank should also help countries build capacity to understand the linkages and impact of a full range of PRS policies and programmes on poverty reduction, particularly those focused on improving overall growth.

C8 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.

Box 1: Working with Local Government

The World Bank's 'Civil Service Law Reform' project in Albania in 2002 helped the Cabinet of Ministers and the supporting Department of Public Administration to learn from: (a) its operational experience and; (b) international best practice to utilise the civil service law to better effect via implementation. In particular, this project highlighted the importance of the decentralisation of powers to lower tiers of government.

Objective 2a:

To strengthen alignment of World Bank support with PRSs in IDA countries, and national development plans in MICs.

Objective 2b:

To support the implementation of country owned PRSs by working in ways that strengthen national and local level systems of policy analysis and planning (including assessment of the social and environmental impact of policy), budgeting and public financial management, monitoring and evaluation. This should involve working with partners to improve the focus on results and to support country led processes which enhance domestic accountability.

3) Joining up at country level

C9 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; this is particularly important 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. Looking forward, there will also be a particular need for the Bank to strengthen its engagement with the IMF, parliamentarians, local authorities, local NGOs, and wider civil society. This engagement will be facilitated by greater transparency of Bank documents at country level.

C10 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.

C11 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. This process of decentralisation will need to be carefully managed, in order to avoid undermining the Bank's internal accountability framework. Experience at the country level should also be rated highly in terms of staff development.

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.

Objective 3b:

To ensure the bank operationalises its Rome commitments on harmonisation.

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.

4) Working in difficult environments

C12 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

Box 2: The Bank's LICUS approach to Liberia

Liberia was the first country to receive a grant (worth US \$4 million) under the LICUS Implementation Trust Fund. This funding mechanism, set up in January 2004, aims to strengthen institutions, support early efforts at policy reform and build capacity for service delivery in those LICUS countries that are not eligible to receive IDA funding due to their arrears with the Bank. The trust fund grant will help consolidate peace and transition efforts in Liberia by aiding in the implementation of the Result-Focused Transitional Framework recently agreed in the International Reconstruction Conference. It will also support close coordination with other donors and UN partners operating in the reconstruction process. Additionally, the Bank is seeking approval for additional funding to scale up initial activities in the areas of Community-Driven Development, economic management and infrastructure investment.

environments requires a strategic and coordinated response from donors, based upon a solid understanding of the political context.

C13 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.

C14 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. Particularly in dealing with post-conflict environments, 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.

5) Appropriate financial instruments

C15 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 programmatic 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.

C16 The Bank is committed to monitoring the impact of its policies and projects 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

Box 3: 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 their poverty and MDG-related needs would suggest is needed. Yet this assistance is not achieving poverty reduction.

DFID's draft "Strategy for achieving the MDGs: The Middle Income Countries"⁵ 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, Government and other stakeholders on 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 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, local 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 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 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 DFID's MIC strategy uses the Development Assistance Committee (DAC) definitions to classify middle-income status: whereby GNI per capita is between US\$746 and US\$9,206.

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.

Objective 5b:

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

Objective 5c:

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

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

C17 The Bank has central responsibility to ensure that unsustainable debts do not create an obstacle to poverty

reduction. This will require effective and timely delivery of debt relief for countries where sustainability is a concern, and ensuring that its own resources are provided on appropriate terms to ensure that sustainability will be maintained into the future.

C18 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.

C19 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,

Box 4: Adjustment Lending and Poverty and Social Impact Analysis (PSIA)

The World Bank has made a commitment to undertake PSIA for major aspects of its 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 PRS 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 – although there is some concern that inadequate attention was given to the recommended phasing of reform.
- 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.

Box 5: 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 the Bank 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 in 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 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.

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.

C20 There is also a need for the Bank to develop an appropriate response to shocks, in collaboration with the IMF, and also expand its current thinking on responding to structural inequities. 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, thereby 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.

7) Scaling up progress towards the MDGs

C21 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 institution-alised reform.

C22 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. It should support processes of decentralization to enhance administrative capacity at the local level. Furthermore, it should encourage international exchange of good practice between public sector practitioners at national and local levels. 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.

C23 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 Group⁶ 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 appropriate analysis. 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, PRSs and spending plans.

C24 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.

Objective 7a:

To promote the promotion by the Bank of good practice in public and public/private provision of infrastructure and social services.

Objective 7b:

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

8) Delivering on Monterrey

C25 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 4), particularly in terms of the resources to be provided and the 0.7% ODA/GNI target. 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, and of the capacity of national governments to spend this finance with the aim of achieving the MDGs and poverty reduction. 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.

C26 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

⁶ The term 'Bank Group' refers to IBRD, IDA, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

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 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.

Objective 8b:

To work with the Bank and other shareholders to make progress on all aspects of the Voice agenda.

D. Delivering on our Strategy

D1 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 approach, whether these partners be elected representatives such as parliamentarians and local authorities, civil society groups, other donors, 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.

D2 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. In order to promote transparency, we will report annually to Parliament on the broad positions we have taken at the Bank Board. 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.

D3 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.

D4 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.

D5 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.

Annex 1: World Bank Group: Basic Data

Headquarters: Washington, D.C., United States of America.

President: James Wolfensohn (USA) elected in 2000 for second five-year term.

Administrative Budget: Fiscal Year (FY) 2003
(1 July to 30 June)
IBRD/IDA – \$1.644 billion
IFC – \$230.2 million
MIGA – \$27.8 million

Bank Group Composition

The World Bank Group comprises the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) – four closely linked institutions, legally and financially independent and established with their own Articles of Agreement. The over-arching goal of the Group is to reduce poverty and improve living standards by supporting sustainable growth and investment in people.

International Bank for Reconstruction and Development (IBRD)

Established in 1945.

Membership: 184 countries. To join the IBRD, countries must be a member of the IMF.

Resource Base: Authorised capital of \$190.81 billion.

Shareholding: USA, Japan, Germany, UK and France are the largest shareholders with 16.40%, 7.87%, 4.49%, 4.31% and 4.31% respectively.

Lending Terms: IBRD loans have a maturity of 12-20 years with a grace period of about five years.

The IBRD's subscribed capital is currently some \$189.6 billion. It raises most of its money on the world's financial markets through the sale of AAA rated bonds. It lends at market rates reflecting its borrowing costs to member countries which are creditworthy. IBRD borrowings are backed by the capital subscribed by member governments.

Only a portion of the capital (\$11.5 billion) is paid-in; most of it is in the form of callable capital should the Bank ever become unable to meet its obligations to its bondholders. This capital has never been called.

Programme size: The IBRD is the World Bank Group's main lending organisation. IBRD commitments in 2003 totalled \$11.2 billion for 99 projects.

International Development Association (IDA)

Established in 1960 to provide assistance to poorer developing countries that cannot meet the IBRD's near-commercial terms, IDA provides loans (known as 'credits') mainly to those countries with an annual per-capita gross national product of \$865 or less (in 2002 dollars). Since IDA 13, a proportion of IDA resources have also been delivered in grant form.

Membership: 164 countries

Resource Base: IDA resources are mainly derived from contributions from donor countries, but also from repayments on earlier IDA credits and transfers from IBRD net income. IDA resources are replenished every three years. The 13th replenishment (IDA 13) was completed in July 2002 and raised \$23 billion of new donor resources for commitment over the three years 2003 to 2005. The UK share was raised to 10.14%, worth some £900 million. Total subscriptions to IDA were \$118.9 billion as of 30 June 2003.

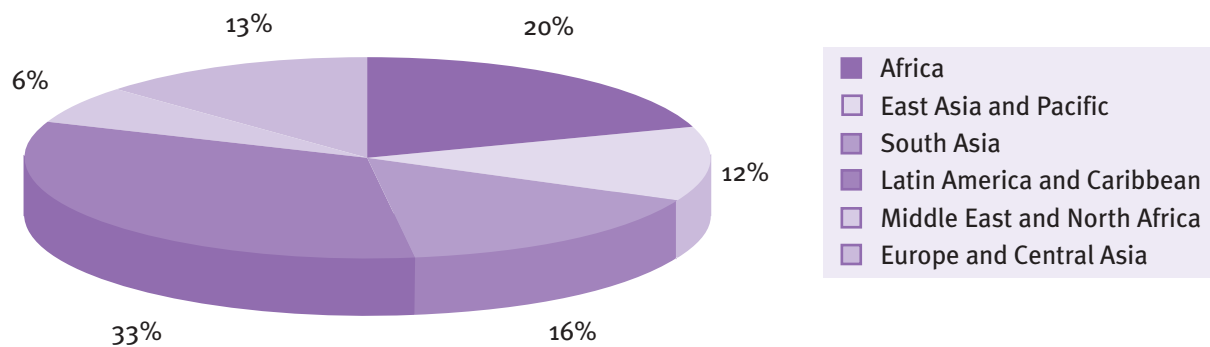
Lending Terms: IDA credits have maturities of 35-40 years with a 10 year grace period, and are interest free, but carry a small service charge to cover administrative costs.

Programme Size: IDA commitments in FY 2003 totalled \$7.3 billion for 141 projects; disbursements were \$7.0 billion.

IBRD and IDA Lending by Region

Fiscal 2003

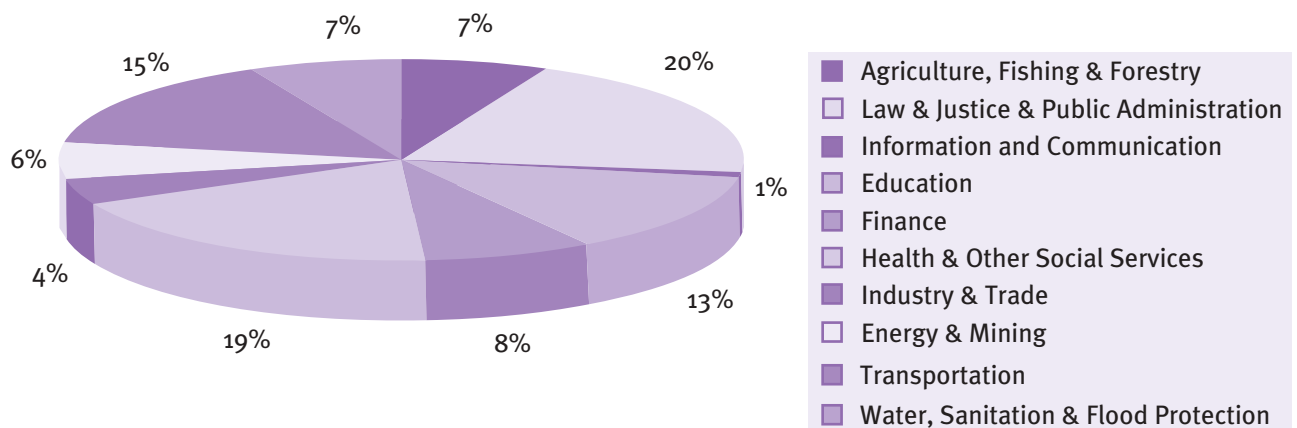
Share of total lending of \$18.5 billion



IBRD and IDA Lending by Sector

Fiscal 2003

Share of total lending of \$18.5 billion



International Finance Corporation (IFC)

Established in 1956.

Membership: 175 countries.

Resource Base: Authorised capital of \$2.4 billion as of 30 June 2003. The UK shareholding is valued at \$121 million. About 80% of IFC's funds are borrowed in the international financial markets through public bond issues or private placements, and 20% is borrowed from the IBRD.

Shareholding: USA, Japan, Germany, UK and France are the largest shareholders with 24.12%, 5.98%, 5.46%, 5.13% and 5.13% respectively.

Lending Terms: IFC's role is to strengthen the private sector in developing countries. It lends directly to the private sector, providing long-term loans, equity investments and guarantees.

Programme Size: IFC commitments in FY 2003 totalled £3.9 billion for 204 projects.

IFC Commitments by Region

Fiscal 2003

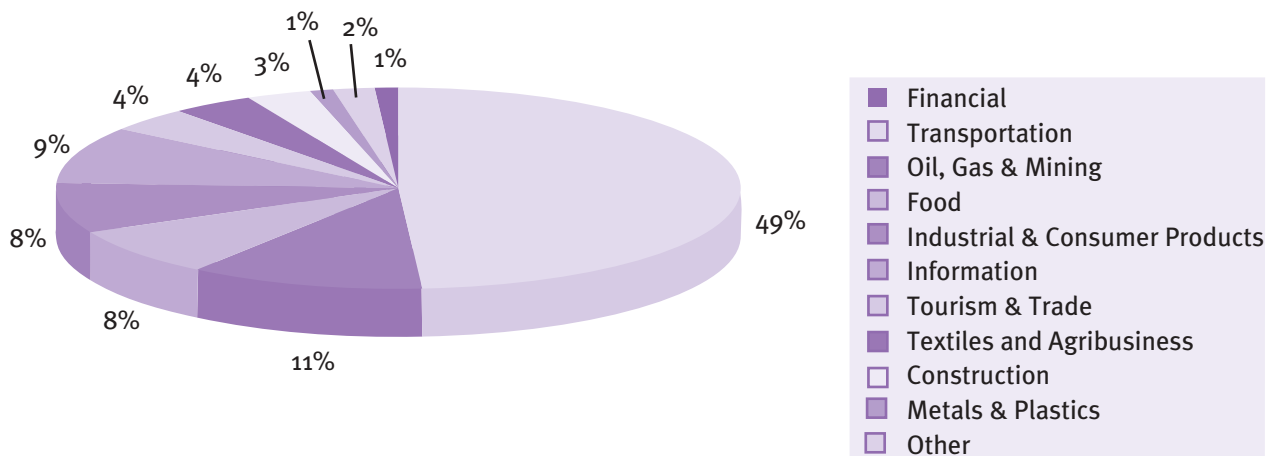
Share of total lending of \$5 billion



IFC Commitments by Sector

Fiscal 2003

Share of total lending of \$5 billion



Multilateral Investment Guarantee Agency (MIGA)

Established in 1988.

Membership: 164 member countries.

Resource Base: MIGA's authorised capital is \$1.1 billion. The UK shareholding is 4.9% or \$52 million, of which \$10.5 million has been paid in, half in cash, half in promissory notes. The balance of shares are callable if required to meet MIGA's obligations.

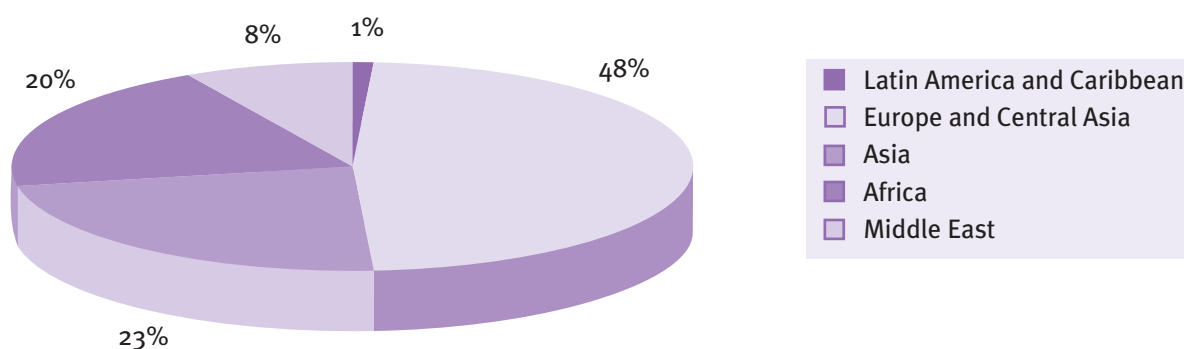
A General Capital Increase worth \$850 million was agreed in April 1998. The UK subscription to extra shares cost \$40 million, of which \$7 million was paid in over three years.

Shareholding: USA, Japan, Germany, UK and France are the largest shareholders with 19.79%, 6.78%, 4.89%, 4.68% and 4.68% respectively.

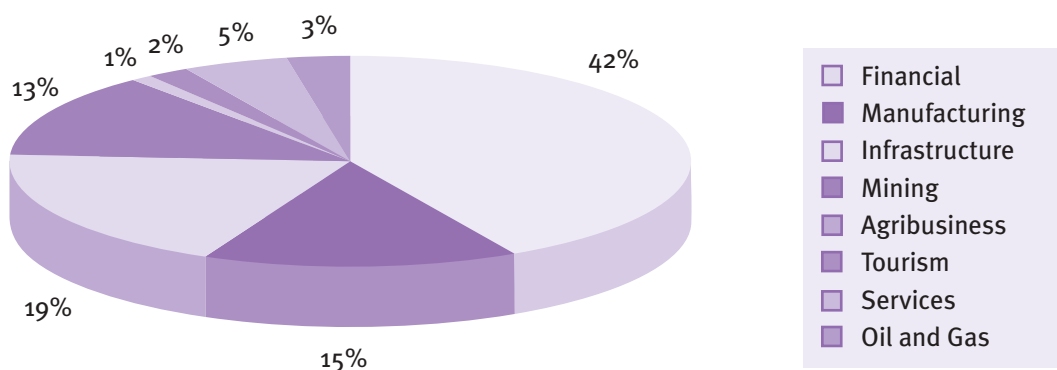
Lending Terms: MIGA aims to help developing countries attract foreign investment by providing investors with guarantees against 'non-commercial risk', such as expropriation and war. It also provides governments with advice on improving the climate for foreign investment.

Programme Size: MIGA contracts issued in FY 2003 totalled \$1.4 billion.

MIGA Activities by Region



MIGA Activities by Sector



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