DFID Department for International Development

The UK and the World Bank 2007–2009

This report covers the period from July 2007 to November 2008, and looks forward to 2009.

Unless otherwise stated, references to 2007 and 2008 in this report denote World Bank Fiscal Years 2007 and 2008 respectively. The World Bank Fiscal year runs from 1 July to 30 June. So 2007 denotes the period between 1 July 2006 and 30 June 2007 and 2008 denotes the period between 1 July 2007 and 30 June 2008.

All figures are reported in sterling and US Dollars. Where conversion from US Dollars was necessary this was done using the average historical exchange rate covering the period 1 July 2007-30 November 2008, which was 0.52 Pounds to the US Dollar.

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

Contents

Foreword by the Secretary of State

I last reported in late 2007 on DFID's work with the World Bank. Since then a series of unprecedented challenges – high food and fuel prices, a financial crisis and a global economic downturn – have emerged that threaten progress towards achieving the Millennium Development Goals. In the long term it is the poorest people in developing countries who will be hit hardest. More people will be pushed into poverty and the impressive gains made in recent years in getting more children into school and increasing access to healthcare risk being reversed.

All countries are being affected by the current global downturn which has underlined how interdependent the world is. While dealing with the direct impact of the crisis in the UK, we must not lose sight of the fact that there can be no long-term security at home unless we reduce poverty and increase opportunity for the world's poor in an effective and sustainable manner.

International institutions such as the World Bank are central to our work. The Bank is able almost to triple its lending to middle-income countries in 2009 and to fast-track funding to low-income countries to meet the increased demand for finance. It moved quickly to provide hundreds of millions of dollars in assistance to countries struggling with the impact of high food prices and mobilised resources to support increased agricultural productivity, particularly in Africa. Last year it provided $24.7 billion of loans and grants to the world's poorest countries, remaining the world's largest single provider of development assistance.

The Bank is one of the most effective international development organisations and during the last 12 months we worked closely with the Bank and its shareholders to improve it further. As set out in this report, on issues as diverse as climate change, fragile states, health and governance of the Bank itself, we have continued to engage with, support and – when necessary – challenge the Bank to deliver on its commitments and increase its contribution to achieving the MDGs.

In 2009 DFID will continue to work closely with the Bank on a wide range of policy and country issues and towards our shared aim of reducing global poverty. Top of the list of issues is ensuring that the Bank provides high quality, flexible, timely and tailored funding and advice to help developing countries deal with the short- and medium-term impact of the global economic downturn. Although this must be the most important priority, the organisation must not lose sight of the need to deliver on other objectives, including environmental sustainability, gender equality, delivering effective aid and strengthening its own governance and legitimacy.

Recent events have underlined that in an interdependent, globalised world we need effective international institutions, ready to adapt and respond to diffuse, complex and globalised challenges. We will continue to work with the Bank to ensure that it is a partner of choice, not just of necessity, for developing countries as they respond to these challenges.

Rt Hon Douglas Alexander MP
Secretary of State for International Development

1. Introduction

This report sets out how the UK worked with the World Bank Group between July 2007 and November 2008 to make progress on our shared objective: reducing poverty. DFID's engagement with the Bank in this period was underpinned by the objectives set out in our Institutional Strategy Paper, published in September 2004.[1] And it sets out our high-level priorities and objectives for working with the Bank in 2009.

Throughout this period, the UK delegation based in Washington DC and staff from DFID and other government departments in the UK have been working closely with the Bank on many issues and the report focuses on that engagement. It does not provide an exhaustive account of what the Bank Group did. Instead it provides:

- A narrative on major developments in *policy and strategy* which covers the Bank Group's actions, the UK's engagement and the outcomes;
- An explanation of how Bank *operations and implementation* have been taken forward setting out progress against targets or objectives and examples of major projects and programmes launched;
- There is also a final section on our priorities and high-level objectives for engaging with the Bank in 2009.

We explain key terms and concepts using text boxes throughout the report.

Annex 1 sets out further information on the UK's financial support to the Bank.

Annex 2 sets out UK positions on resolutions adopted by the Bank's Board of Governors and Executive Board.

[1] http://www.dfid.gov.uk/pubs/files/ispworldbank2.pdf

2. Overview

World Bank Group or World Bank

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

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

Robert Zoellick took up the post of World Bank President on 1 July 2007. Three months later he gave a speech setting out his vision for the organisation, entitled 'An Inclusive and Sustainable Globalisation'.[2] He identified six strategic themes for the Bank. The Bank has continued to deliver resources to the World's poorest countries, with $24.7 billion (£12.8 billion) disbursed through IBRD and IDA in 2008. 2008 also saw the strengthening of the UK delegation to the Bank and the IMF, as part of the UK's efforts to make key multilateral institutions more effective, responsive and relevant.

The International Monetary Fund (IMF)

The IMF is an international organization of 185 member countries. It was established at the same time as the World Bank in 1944 to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment.

[2] http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21504730~pagePK:34370~piPK:42770~theSitePK:4607,00.html

Policy and Strategy

Bank Strategy

The President's six themes are:

- Helping Low Income Countries (LICs) – with an emphasis on growth, infrastructure, agriculture and governance;
- Helping Fragile States – with an emphasis on reconstruction and developing a more integrated approach to development and security;
- Helping Middle Income Countries (MICs) – with a more flexible and competitive approach to finance and advice;
- Fostering regional and global public goods – including health, trade and climate change;
- Fostering opportunities in the Arab World – with an emphasis on economic growth;
- Fostering knowledge and learning – strengthening the Bank's contribution in this field.

The UK welcomed the President's overall vision and the six themes. They complement the Bank's existing two strategic pillars that focus on promoting economic growth and human development. The six themes have clear links to DFID's priorities, especially in helping fragile states and promoting growth and trade in low income countries. We strongly agree with President Zoellick's view that the individual parts of the Bank should work better together. Senior Bank officials are taking work forward under each of the themes. We will continue to monitor progress. We have called for clarity on how work in each of these areas will be resourced, what results will be achieved and how they will be measured.

LICs and MICs

The World Bank's main criterion for classifying economies is gross national income (GNI) per capita. Based on its GNI per capita, every economy is classified as low income, middle income (subdivided into lower middle and upper middle), or high income. According to 2007 GNI per capita, the groups are: **low income**, $935 or less; **lower middle income**, $936 - $3,705; upper **middle income**, $3,706 - $11,455.

Bank Resources

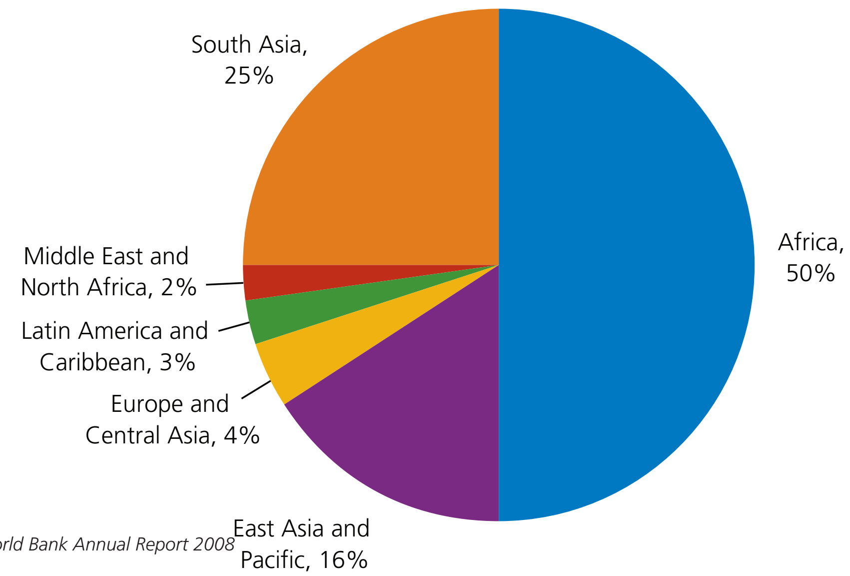
Figures in this section are drawn from the Bank's 2008 Annual Report.

The Bank mobilises financing by borrowing from international capital markets (for IBRD) and by allocating grants and credits using contributions from richer member countries (IDA). During the fiscal year 2008, the Bank committed $24.7 billion (£12.8 billion), of which $11.2 billion (£5.8 billion) was committed through IDA and $13.5 billion (£6.8 billion) through IBRD.

International Development Association (IDA)

The largest share of IDA resources was committed to Africa, which received 50% of all IDA commitments. South Asia and East Asia and Pacific also received large shares of total funding. Vietnam and India were the largest single recipients of funding.

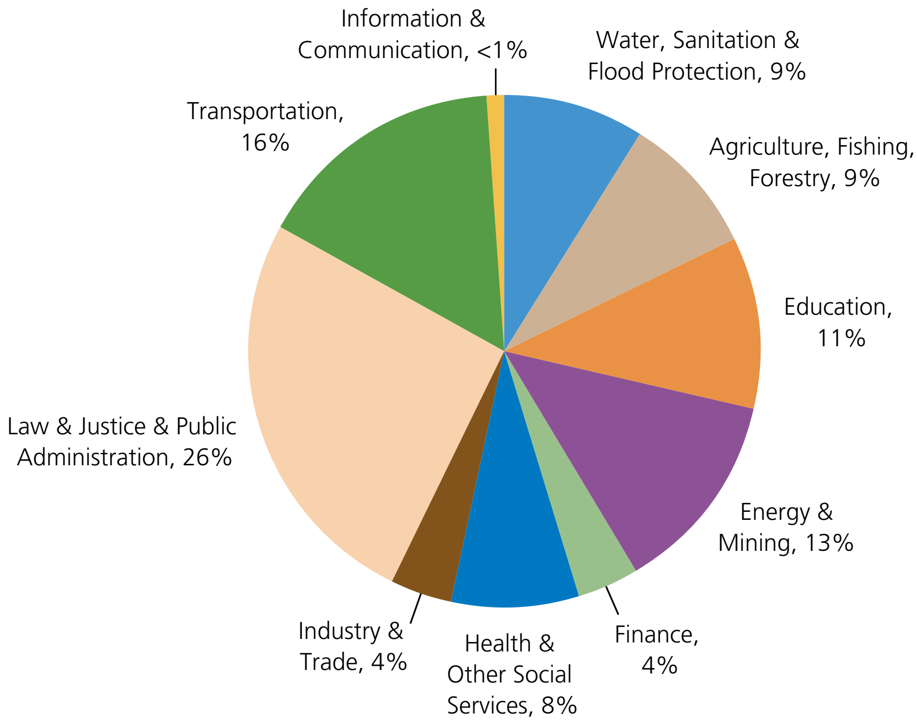
Figure 1: **Total IDA Commitments by Region l Fiscal 2008** (Share of Total lending of $11.2 billion {£5.8 billion})



Source: World Bank Annual Report 2008

In sectoral terms, public administration (including law, justice and governance) received the largest commitments, 26% of the total. IDA's support to infrastructure continued to increase with 39% of total commitments going to energy and mining; transportation; water, sanitation, and flood protection; and information and communication technologies. There was also significant support for the education and agricultural sectors.

Figure 2: **Total IDA Commitments by Sector l Fiscal 2008** (Share of Total lending of $11.2 billion {£5.8 billion})

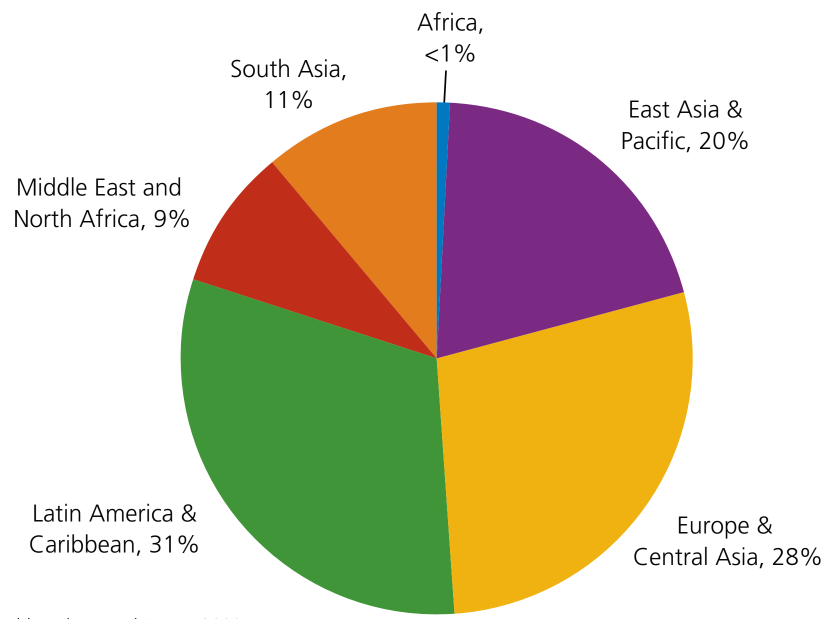


Source: World Bank Annual Report 2008

International Bank for Reconstruction and Development (IBRD)

In 2008, Latin America and the Caribbean was the largest recipient of IBRD lending receiving 31% of total lending. Europe and Central Asia received 28%, and East Asia and Pacific received 20% of total lending.

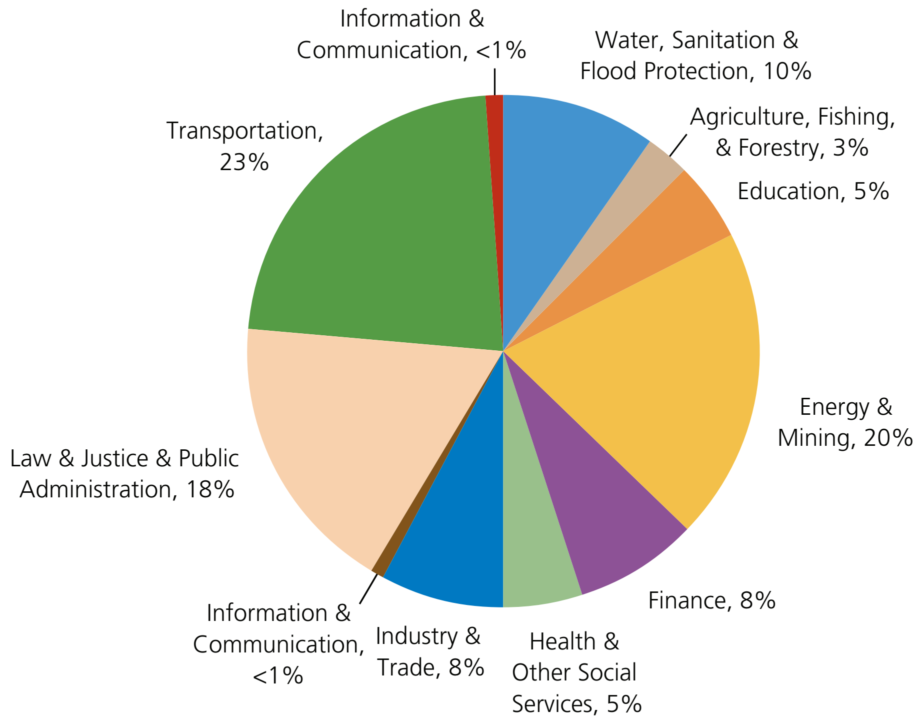
Figure 3: **Total IBRD Commitments by Region l Fiscal 2008** (Share of Total lending of $13.5 billion {£7.0 billion})



Source: World Bank Annual Report 2008

The transportation sector was largest recipient of IBRD lending in 2008, receiving 23% of total lending. Energy and mining received 20% and public administration (including law, justice and governance) received 18% of total lending.

Figure 4: **Total IBRD Commitments by Sector | Fiscal 2008** (Share of Total lending of $13.5 billion {£7.0 billion})



Source: World Bank Annual Report 2008

International Finance Corporation (IFC)

During the reporting period DFID and IFC continued to deepen their relationship. This included joint programmes on private sector development in countries such as Yemen and Bangladesh. DFID and IFC held the first ever joint learning event to consider ways of improving both organisations' individual and joint work on the private sector. We also worked with IFC and the World Bank to improve the response of the IFC and donors to private sector development needs in conflict-affected countries.

The International Finance Corporation

The International Finance Corporation (IFC) provides investments and advisory services to build the private sector in developing countries. IFC fosters sustainable economic growth in developing countries by financing private sector investment, mobilising capital in the international financial markets, and providing advisory services to businesses and governments.

Multilateral Investment Guarantee Agency (MIGA)

MIGA's mission is to promote foreign direct investment (FDI) into developing countries to help support economic growth, reduce poverty, and improve people's lives. 2008 was marked by turmoil in the global financial markets. High energy and food prices had devastating effects on the lives of poor people. In this very difficult environment, MIGA ramped up its support for member countries with the largest amount of guarantees (political risk insurance) issued in its history. New guarantee issuance reached $2.1 billion (£1.1 billion) in 2008 – a gauge of the need and demand for MIGA's investment guarantees.

Knowledge

DFID continues to collaborate actively with the Bank on knowledge, both globally and at the country level. Major highlights in this period included the World Development Report, published in October 2007. The report made a timely call for greater investment in agriculture in developing countries, so focusing minds on the short- and long-term issues relating to the promotion of agricultural development. Other examples of the Bank's work on knowledge are set out in the thematic sections of the report.

Trust Funds

The Bank's Board discussed and agreed a new management framework for Trust Funds in October 2007. This included a number of measures to improve focus and apply a more strategic approach, including a $1 million threshold for new Funds; a revised fee structure designed to support more strategic, multi-donor Funds; and a new management structure that seeks to align Funds more closely with the Bank's objectives. Alongside this the framework also included measures to increase oversight and control, and improve accountability. Management will report back to the Board by October 2009 on progress and impacts of implementation.

UK Delegation

The UK delegation to the Bank, UKDEL, continues to be effective. For much of the period in question the UK continued to have one Executive Director (ED) who served both the IMF and the World Bank Group at the head of UKDEL. In January 2008 we decided to create a separate post of ED to the World Bank. The decision to strengthen our senior representation in Washington reflects the central importance of the World Bank to achieving the MDGs, the increased level of UK resources being channelled through the Bank and the wide-ranging scope of our engagement. The new arrangement came into effect in September 2008. Treasury, DFID and Bank of England staff in the UK delegation continue to be housed in the same office and to work closely together to meet the UK's policy objectives for the Bank and the IMF.

3. The Food, Fuel and Financial Crises

2008 saw significant volatility in the price of food, fuel and other commodities and a global economic crisis which threatens to undermine progress on poverty reduction. Initially sheltered from the first wave of the crisis, MICs and LICs are now beginning to be directly affected. The Bank is at the forefront of the international response. It is using its convening power to bring partners together and deploying significant financial resources and technical expertise to address immediate needs and generate medium and long-term solutions.

Policy and Strategy

Financial sectors in most low-income countries are less integrated into the global financial markets, and therefore have been less affected by the first wave of the financial crisis. Yet developing countries may be more vulnerable to a second wave and some are already seeing a withdrawal of private funds and investment, so leaving them with significant financing gaps. In December 2008 the World Bank issued its Global Economic Prospects report for 2009 which predicts that developing country economic growth will slow from 7.9 percent in 2007 to 4.5 percent in 2009. Growth had previously been projected to stay strong at 6.5 percent in 2009.[3]

The Bank has played a leading role in responding to the crisis and the issue dominated discussions at the 2008 Annual Meetings. The Bank Group has taken concrete steps to increasing the financial support available to developing countries:

- *IDA* set up a new facility to fast track delivery of $2 billion (£1.0 billion) to help poorest countries by accelerating approval processes for money from the $42 billion (£21.7 billion) IDA 15 fund. Money will be used for projects including safety nets, infrastructure, education and health.
- *IBRD* is able to almost triple lending to Middle Income Countries (MICs) to $30 billion (£15.5 billion) this year and make new commitments of up to $100 billion (£51.7 billion) over the next three years.
- *IFC* is ramping up support to the private sector through the launch and expansion of four initiatives:

---

3 http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/0,,contentMDK:22004555~pagePK:64165401~piPK:64165026~theSitePK:469372,00.html

– *Global trade finance program* – this $3 billion (£1.6 billion) facility will support trade with emerging markets. It will also benefit participating banks, including those in some of the world's poorest countries.

– *Bank Recapitalization Fund* – is a $3 billion (£1.6 billion) global equity and subordinated debt fund which aims to recapitalise banks in smaller emerging markets. The funds provided will help stabilise the banking system in these economies and assist in recovery.

– *Infrastructure Crisis Facility* – will bridge the gap in available financing for viable, privately-funded or public private partnership infrastructure projects in emerging markets that are facing financial distress. IFC will provide up to $300 million (£155 million) to the Infrastructure Crisis Facility and expects other sources to invest an additional $1.2–10 billion (£0.6–5.2 billion).

– *IFC Advisory Services* – The Advisory Services response package complements the three other response initiatives. It has four components: improving access to finance; strengthening the business enabling environment; improving corporate governance; and supporting public-private partnerships in infrastructure.

In response to growing concern about the impact of rising food prices the Bank launched a Global Food Response Programme (GFRP) to fast-track up to $1.2 billion (£620 million) of support. It also increased assistance for agriculture and other food-related activities – taking the total to $6 billion (£3.1 billion) in 2008/09, with $800 million (£414 million) going to support agriculture in Africa.

DFID has encouraged Bank-UN links in support of the work of the UN High Level Task Force on the Global Food Crisis. We have also contributed to the development of the Comprehensive Framework for Action (CFA) which sets out policies and priorities for international and national responses to the crisis.

Work on agricultural research focused on strengthening the Consultative Group for International Agricultural Research (CGIAR) and building institutional capacity in sub-regional agricultural research organisations in Africa. The Bank is also establishing a multi-donor trust fund for CAADP (Comprehensive Africa Agriculture Development Programme) to which DFID has provided £5 million ($9.7 million).

Operations and Implementation

The Bank has provided targeted support to a number of countries in response to these multiple crises. For example it agreed a Deferred Draw-down Loan to Indonesia to help ensure that the government's current spending plans can still be met. It has also provided support to Mexico, designed to enable the continued functioning of the mortgage market and make it more accessible for low income groups.

By December 2008 the Bank's Global Food Response Programme (GFRP) had committed over $830 million (£429.1 million) to 27 countries adversely affected by the food crisis. The money is used, among other things, to feed poor children and other vulnerable groups, provide for nutritional supplements to pregnant women, lactating mothers, infants and small children, to meet additional expenses of food imports or to buy seeds for the new season.

4. International Development Association (IDA) Replenishment

45 donors pledged record levels of funding to the International Development Association during the IDA replenishment process in 2007. As a result, $41.7 billion (£21.6 billion) will be available to 78 of the world's poorest countries between 2008 and 2011. The UK made its largest contribution ever and for the first time became the biggest donor to an IDA replenishment. The replenishment negotiations saw the Bank make a series of major policy commitments on issues including decentralisation, conditionality, fragile states, climate change, gender and regional integration.

What is IDA and what are replenishments?

IDA lends money (known as credits) on concessional terms to the world's 78 poorest countries. IDA also provides grants to countries at risk of debt distress. Since its creation in 1960, IDA has provided US$182 billion in grants and credits, averaging US$10 billion a year in recent years and directing the largest share, about 50 percent, to Sub-Saharan Africa. IDA is funded largely by contributions from the governments of its richer member countries. Donors meet every three years to replenish IDA funds and review IDA's policies.

Policy and Strategy

Negotiations for the fifteenth replenishment (IDA 15) began in March 2007 and concluded in December 2007. Donors pledged $25 billion (£12.9 billion) – a 42% increase from IDA 14 – which combined with repayments of previous IDA loans of $6 billion (£3.1 billion), transfers from other parts of the World Bank Group of $4 billion (£2.1 billion), and compensation from donors for the costs of debt relief of $6 billion (£3.1 billion) gives a total of $41.7 billion (£21.6 billion) for the three years of IDA 15. This was 30% more than in IDA14 (2005-2008).

The UK's contribution to IDA 15 was £2.1 billion ($4.1 billion), a 49% increase over our contribution to IDA14. The World Bank is widely regarded as being among the most effective development institutions. An increased contribution to IDA is a high-impact use of British aid. Giving to effective multilaterals like World Bank can prevent duplication, reduce costs, leverage contributions from others, improve the impact of aid and offer economies of scale.

The Bank is a central part of the international development system, and wields great influence. So bringing about further reform in the Bank has the potential to stimulate reform among other bilateral and multilateral institutions.

There are multiple examples of how the Bank has helped developing countries to meet the MDGs. $126 million (£65.1 million) (1998-2007) funded the construction of 130 water source points that are providing clean drinking water to 62,000 people in urban and rural areas in Mozambique. $185 million (£95.6 million) (1993-2005) helped increase female enrolment in Bangladeshi secondary schools from 1.1 million in 1991 to 3.9 million in 2005. In Afghanistan, half a million microcredit loans worth $120 million (£62.0 million) have been made since 2003 helping to stimulate income, employment and economic growth for hundreds of thousands of people, many of them women.

MDGs

The eight Millennium Development Goals (MDGs) were agreed at the United Nations Millennium Summit in September 2000. Nearly 190 countries have subsequently signed up to them. The eight Millennium Development Goals are:

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

The negotiations were also an opportunity to improve the way IDA works on issues such as conditionality and decentralisation.

Despite the average number of conditions in the Bank's operations falling from 32 in 1999 to 12 in 2007 in low income countries, there is consistent feedback from DFID staff in country that the Bank needs to do more to respond to country requirements and empower frontline staff.

Conditionality

Conditionality is the application of specific requirements that directly help determine a donor's decision to approve or continue to finance a loan or grant. Conditionality may involve relatively uncontroversial requirements, such as anti-corruption measures, but can involve highly controversial ones, such as the privatization of key public services or how governments should tax and spend. This type of condition was often used in the past; grouped under the label structural adjustment, they were prominent in the structural adjustment programmes following the debt crisis of the 1980s.

The UK was at the forefront of moves to address conditionality as part of the IDA replenishment. The Bank has made a commitment to avoiding conditions on sensitive policies (privatisation, trade liberalisation) if ownership is uncertain or the political environment is fragile. There is also demonstrated commitment on the part of management to improve practice further based on the 2005 Good Practice Principles which commit it to ensure conditions are not imposed, to avoid a one-size-fits-all approach and to ensure any conditions used are critical to achieving results. We continue to press for implementation of these principles.

The UK and the Bank agree that the decentralisation of staff will make IDA more agile, efficient, relevant and effective. We believe that decentralisation of staff and decision making enhances country ownership and helps the Bank to align its work behind developing country governments' plans and systems and to work better with other donors. Progress has been made but more can be done.

We used the IDA negotiations to secure policy commitments from the Bank in these and other areas.[4] These commitments include:

- *decentralisation* – appointing more World Bank staff in developing countries, particularly in Africa, with more decision-making authority and working more closely with other donors;
- *policy conditionality* – agreeing to improve implementation of the Bank's conditionality policy and a further review of progress;
- *poverty and social impact assessments (PSIA)* – update the Bank's good practice note and review the Bank's use of distributional and social analysis;
- *fragile states* – providing more and better assistance to countries emerging from conflict or re-engaging with the international community;

[4] The full set of Bank commitments is captured in the IDA 15 "Deputies Report" which is available on the Bank's website: http://siteresources.worldbank.org/IDA/Resources/Seminar%20PDFs/73449-1172525976405/FinalreportMarch2008.pdf

- *climate change* – mainstreaming climate work into IDA's core poverty reduction work, in particular to help developing countries adapt to the impact of climate change;
- *gender* – strengthening implementation and reporting against the Bank's Gender Action Plan and strengthening tracking of progress on gender outcomes;
- *regional integration* – providing additional financing for regional projects.

Operations and Implementation

The Bank made progress on many of these issues during the first half of 2008. Additional funds to accelerate decentralisation were included in the Bank's Administrative Budget for 2008/2009. A higher number and proportion of Bank staff now work in developing countries – rather than in the Bank's headquarters – than was the case ten years ago. For example, of staff working on Africa, 58% are now based in Africa. The Bank was pivotal in launching the new Climate Investment Funds and the new level of ambition under the Clean Energy Investment Framework. President Zoellick made six new commitments on gender at the April Spring Meetings. The Bank has been working with DFID and other donors to consider ways of strengthening its use of PSIA (Poverty and Social Impact Analysis). DFID will continue to monitor and assess delivery against the IDA15 commitments.

Major projects approved under IDA14 in its final year include a $600 million (£310.2 million) loan as part of the Second Elementary Education Project (SSA II) for India to significantly increase the number of 6-14 year olds regularly attending school.[5] A $330 million (£170.6 million) loan was approved for the Federal Roads Development Project in Nigeria, to reduce passenger travel times, vehicle operating costs, and traffic related fatalities by rehabilitating, upgrading and maintaining major roads.[6] The Bank continued to work to achieve MDG3, reducing gender inequalities. In a project funded jointly with Germany, The Netherlands and the UK, a $20 million (£10.3 million) loan was provided to the Government of Yemen to improve access to secondary education, particularly for girls. DFID will be closely involved in monitoring progress.[7]

---

[5] http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=40941&menuPK=228424&Projectid=P102547

[6] http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=40941&menuPK=228424&Projectid=P090135

[7] http://web.worldbank.org/external/projects/main?Projectid=P089761&Type=Overview&theSitePK=40941&pagePK=64283627&menuPK=64282134&piPK=64290415

5. Climate Change and Sustainability

Climate change is a critical challenge for all countries, but developing countries are feeling the impact fastest and hardest. As set out by the Prime Minister as part of the International Institutional Reform Initiative, the Government believes that the World Bank has a key role to play in helping developing countries adapt to the impact of climate change and grow their economies in a sustainable and environmentally friendly way.

Policy and Strategy

The period covered by this report saw three major achievements that demonstrate progress in this area. First, in June 2008 the Bank and the other multilateral development banks agreed to aim to leverage at least $117 billion (£60.5 billion) of investments in clean energy between 2008 and 2011 through the Clean Energy Investment Framework (CEIF), launched at the 2005 Gleneagles G8 Summit.[8] The UK pushed strongly for the Bank to be ambitious and worked closely with the banks to forge agreement and to identify concrete ways to achieve it.

Second, the Bank played a leading role in developing the Climate Investment Funds (CIFs). The CIFs were launched at the G8 Summit in July 2008, with up to 10 donors pledging $6.1 billion (£3.2 billion) to the Funds in September. The Funds will help developing countries adapt to the effects of climate change and grow their economies in as sustainable and environmentally-friendly way as possible. The Bank will administer the funds on behalf of the international community.[9] The funds will operate until a new international climate change framework comes into effect in around 2012.

We worked closely with the Bank on the design of the CIFs and intend to channel £800 million ($1.6 billion) through them. We ensured that the Funds will help pilot new programmes which can inform longer term approaches and solutions by giving developing countries practical examples of what works best in different situations. We also ensured that developing countries have a strong role in the Funds' governance structures by having half of the seats on its Board.

[8] http://www.g8summit.go.jp/doc/pdf/0708_07_en.pdf

[9] http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTCC/0,,contentMDK:21713769~menuPK:4860081~pagePK:210058~piPK:210062~theSitePK:407864,00.html

Third, in October 2008 the Bank's Governors approved the Strategic Framework for Climate Change and Development (SFCCD).[10] This is an important step towards the Bank implementing the commitment it made in the 2007 IDA 15 negotiations to mainstream climate considerations into its core development activities. Alongside the Clean Energy Investment Framework and the Climate Investment Funds it reflects a huge shift in the Bank from the position two years ago.

The Framework has six Action Areas:

1. Supporting climate actions in country-led development processes;
2. Mobilising concessional and innovative finance;
3. Facilitating the development of innovative market mechanisms;
4. Leveraging private sector resources;
5. Accelerating the development and deployment of new technologies;
6. Stepping up policy research, knowledge and capacity building.

It includes a results framework for 2009-2011 that sets out key actions on climate across the organisation. Highlights of this include:

- Increasing financing for Renewable Energy and Energy Efficiency by 30% per annum;
- Increasing low carbon energy projects' share of Bank energy investments to 50%;
- Integrating climate actions into revised strategies for Bank regions, the IFC and MIGA;
- Integrating climate actions into revised Urban, Energy and Social Development strategies;
- Screening energy, transport, water and urban projects for Energy Efficiency opportunities.

As country, regional and sector strategies are revised, they will set out what the Bank intends to do in each of the six Action Areas, and what results will be achieved. These will then feed back into the overall results framework.

The UK pushed for this commitment and strongly supports the Bank's efforts. We have sought to ensure that the Bank moves beyond business as usual, with stretching targets for renewable energy and energy efficiency. We will continue to press for clear results to be identified for all relevant parts of the Bank to ensure

[10] http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTCC/0,,contentMDK:21713588~menuPK:4849391~pagePK:210058~piPK:210062~theSitePK:407864,00.html

that change is delivered in the Bank's operations, recognising that the SFCCD is the start of a process, not the end.

UNFCCC and Post- 2012 Framework

The United Nations Framework Convention on Climate Change (UNFCCC) sets an overall framework for intergovernmental efforts to tackle the challenge posed by climate change.

Under the Convention, the 192 governments who have ratified it:

- gather and share information on greenhouse gas emissions, national policies and best practices;
- launch national strategies for addressing greenhouse gas emissions and adapting to expected impacts, including the provision of financial and technological support to developing countries;
- cooperate in preparing for adaptation to the impacts of climate change.

The Kyoto Protocol (an international agreement linked to the UNFCCC) was adopted in Kyoto, Japan, in 1997, setting binding targets to reduce greenhouse gas emissions.

The shape of the post-2012 international environmental financing architecture is a key topic in the ongoing UNFCCC negotiations, which are due to conclude in December 2009.

Operations and Implementation

Bank funding has continued to help countries adapt to climate change and reduce greenhouse gas emissions. The share of low carbon projects in the Bank's energy portfolio was 40%.[11] The Bank approved a number of major climate change-related investments in 2008.

For example, $95.5 million (£49.4 million) will support the Ghana Energy Development and Access project to provide grants to developers of renewable energy generation projects – such as small hydropower, wind, and biomass – for the benefit of communities outside the main national grid system.[12]

[11] World Bank Annual Report 2008, page 20
[12] http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=40941&menuPK=228424&Projectid=P074191

$200 million (£103.4 million) was approved for the Energy Efficiency Financing in China project. It aims to improve the energy efficiency of medium and large-sized industrial enterprises, by demonstrating how greater efficiency can be achieved, supporting energy conservation projects and supporting the government's capacity to implement industrial energy efficiency policies and programmes. Although not involved directly with this project, DFID does engage with the Bank office in Beijing on its overall approach to energy management, energy efficiency and low carbon development.[13]

[13] http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=318950&menuPK=318984&Projectid=P084874

6. Making the Bank more Representative and Responsive

Speaking in Delhi in January 2008, the Prime Minister urged the international community to make make our global institutions more representative to help address the challenges of the 21st century.[14] We have therefore pressed for an ambitious package of measures to increase developing countries' say in the World Bank's governance and operations. The Prime Minister chaired a meeting of Commonwealth Ministers in June to discuss how best to move the agenda forward.

Policy and Strategy

In response to calls for greater developing country voice at the Bank, at the Spring Meetings in April 2008 the Secretary of State and other Bank Governors agreed that an initial package of measures should be drawn up for discussion at the Annual Meetings in October 2008 with a view to reaching agreement at the Spring Meetings in 2009.

Annual (Autumn) and Spring Meetings

Each Autumn, the Boards of Governors of the World Bank Group and International Monetary Fund (IMF) hold their Annual Meetings to discuss a range of issues related to poverty reduction, international economic development and finance. The Annual Meetings provide a forum for international cooperation and enable the Bank and Fund to better serve their member countries. Each Spring, the joint Bank and IMF Committees hold meetings to discuss progress on the work of the Bank and Fund.

This timetable was accelerated and Governors agreed a significant package of reforms at the October 2008 Annual Meetings. They agreed that the selection process for the World Bank President should be open, transparent and based on merit. The UK, with significant support from other countries, made clear that this meant the end of the long standing arrangement whereby the US selects the President. Many Governors made it clear that they expect to see candidates from other countries being considered in the future.

[14] Prime Minister Gordon Brown's Speech at the Chamber of Commence in Delhi, 21st September 2008, http://www.number10.gov.uk/output/Page14323.asp

It was also agreed that the voting power of developing countries will be increased through an increase in basic votes. This will raise developing countries votes to 44 per cent at the IBRD. It will raise them to 48 per cent at IDA – if they take advantage of the opportunity to subscribe to additional, unallocated shares.

Alongside this, Sub-Saharan African countries will have an additional seat at the Board, increasing their number from two to three and enabling them to have a greater say in how the Bank is run.

A longer term process to adjust IBRD shares was also set in motion. The review will consider the evolving weight of all members in the world economy and other Bank specific criteria consistent with the its development mandate, moving over time towards equitable voting power between developed and developing members. The Bank's Board will develop proposals by the 2010 Spring Meeting and no later than the 2010 Annual Meetings, with a view to reaching consensus on realignment at the following meeting. This process is currently being taken forward.[15]

In the week before the Annual Meetings Bank President Robert Zoellick also announced that the former President of Mexico, Ernesto Zedillo, would Chair a high level panel looking at World Bank reform.

Recognising the need for consensus and the real gains for developing countries – particularly the additional Board seat for Africa – we agreed the package as a first step in an ongoing process of reform.

In Section 11 we set out how we will take this agenda forward in 2009.

Operations and Implementation

2007–2008 saw notable progress in other related areas, including on appointments and diversity, decentralisation and country ownership, as set out in section 4.

President Zoellick also appointed a new Managing Director, a new Chief Economist and six new Vice Presidents, all of whom are from client countries, four from Sub-Saharan Africa and five are women.

[15] Further information can be found on the DFID website: http://www.DFID.gov.uk/news/files/world-bank-08.asp

7. Governance and Fragile States

The period since July 2007 saw further progress in the Bank's work on fragile states, governance and corruption. An implementation plan for the March 2007 Governance and Anti-Corruption (GAC) Strategy was launched. And new commitments were made on fragile states as part of the IDA15 negotiations.

Policy and Strategy

The Bank agreed a series of policy and financial measures, including: extending the period of extra assistance for post-conflict states from 7 to 10 years and for post-crisis states from 3 to 5 years; the establishment of the State and Peace Building Fund. These changes are expected to provide around $1.3 billion (£672 million) in additional support for fragile states in the IDA15 period.

The UK believes that the Bank must have a thorough understanding of the political context in which it operates and that this understanding must inform its work. We therefore welcome the creation, in Spring 2008, of a new Fragile and Conflict-Affected Countries Group within the Bank under Director-level leadership and the measures introduced to encourage the right staff to work on, and in, these countries. Since 2006 there has been a 60% increase in internationally recruited staff in fragile states, with an increase of over 100% in Africa alone. But more needs to be done.

Progress was made on improving the way the Bank works with the UN with the two organisations agreeing a set of principles and planning processes. Systems and processes had sometimes been applied too rigidly, undermining effective cooperation.

The Bank also moved to strengthen its work on governance. It launched an implementation plan setting out how it will deliver its 2007 GAC strategy. The Bank agreed with the main findings of the Volcker Panel which reported in September 2007 on ways to improve the Bank's response to allegations of fraud and corruption in Bank programmes. And the importance of effective mechanisms to tackle corruption was underlined in early 2008 by a report which found evidence of corruption in Bank health projects in India.

DFID will provide £30 million over 3 years and worked with the Bank and other donors to design and launch in November 2008 a new Governance Partnership Facility. This will support analytical and advisory work in priority countries, research and pilot projects aimed at improving governance. £70m is available from the facility overall.

Operations and Implementation

The Bank has engaged in a number of activities this year to help countries recover from conflict or improve governance and the rule of law. Bank support totalled $4.7 billion (£2.4 billion).[16]

$430 million (£222.3 million) has been provided to Liberia to clear some of its arrears, underpin its economic recovery and enable it to access new lending and investment from the Bank Group. It will also support the Government's efforts to strengthen public institutions, increase financial control and reduce corruption. The UK worked closely with the Bank and the other international financial institutions during the arrears clearance, which was completed successfully.[17]

Lebanon received a $100 million (£51.7 million) loan to increase fiscal sustainability, enhance growth, and deepen social reforms. The project has a particular emphasis on energy sector reform and reducing government subsidies, thereby freeing up scarce public resources to support economic growth and reduce poverty. The objective is also to ensure industrial and household consumers benefit by enjoying a more reliable electricity supply.[18]

The Democratic Republic of Congo received $50 million (£25.9 million) in grants to support the demobilisation of up to an estimated 150,000 ex-combatants and support their transition to civilian life. Another element of the project aims to help the Government reallocate resources from the military to social and economic programmes that benefit the poor.[19]

---

[16] World Bank Annual Report 2008, page 21

[17] http://web.worldbank.org/external/projects/main?Projectid=P102915&Type=Overview&theSitePK=40941&pagePK=64283627&menuPK=64282134&piPK=64290415

[18] http://web.worldbank.org/external/projects/main?Projectid=P094288&Type=Overview&theSitePK=40941&pagePK=64283627&menuPK=64282134&piPK=64290415

[19] http://web.worldbank.org/external/projects/main?Projectid=P105729&Type=Overview&theSitePK=40941&pagePK=64283627&menuPK=64282134&piPK=64290415

8. Human Development

During the period this report covers the Bank began implementing its 2007 Health Strategy and along with the UK played a leading role in launching the International Health Partnership and the Task Force on Innovative Finance for Health Systems. It stepped up its work on nutrition and remained a major funder of education. DFID pressed the Bank to increase its focus on gender which was not being mainstreamed into its work. President Zoellick made six commitments which we hope will deliver a step change in the Bank's work on this crucial issue.

Policy and Strategy

The Bank began to implement its strategy on Health, Nutrition and Population which was agreed in April 2007 and which places a strong emphasis on strengthening health systems. The Bank is playing a key role in implementing the International Health Partnership (IHP) which it helped launch in September 2007 in order to improve coordination between donors and build sustainable health systems.

The UK believes that the Bank has a key role in strengthening health systems, both through financing and technical support. This is the case in Africa, where the health MDGs are most off-track. Health systems strengthening is essential to ensure that the most value is secured from other health interventions, such as those through issue-specific funds such as the Global Fund for Aids TB and Malaria (GFATM). We have therefore supported the Bank's leading role in the IHP. We have pressed for this to complement disease-specific work carried out by the Bank and other partners.

In addition, at the UN High Level Event on the MDGs in September 2008, the Prime Minister and President of the Bank announced that they would co-chair a taskforce to look at innovative financing for health systems. The taskforce will make recommendations on the mix of innovative international financing mechanisms needed to deliver the extra resources required, and promote international support to ensure its recommendations are implemented. It is expected to report later in 2009.

IHP

In September 2007, the International Health Partnership was launched to help build national health systems in some of the poorest countries in the world. The IHP aims to improve the way that international agencies, donors and poor countries work together to develop and implement health plans, creating and improving health services for poor people and ultimately saving more lives.

The IHP is part of a renewed global push to meet the health MDGs – cutting child deaths, improving maternal mortality rates and fighting major diseases. It aims to make health aid work better for poor countries by doing three things:

- focusing on improving health systems as a whole and, not just on individual diseases or issues;
- providing better coordination among donors; and
- developing and supporting countries' own health plans.

The Bank has also significantly increased its focus on nutrition with clear links to the food and agriculture agenda. We welcome the increased focus on nutrition and have encouraged the Bank to work closely with WHO and UNICEF.

Support for education, and primary education in particular, has been one of the highest priorities for IDA over the past decade and this trend continued in 2008. The UK has engaged with the Bank on progress with implementing the commitment made in 2007 for IDA to spend at least $1.5 billion (£775 million) per year on education in 2007 and 2008. This year we have encouraged the Bank to strengthen its work in support of education in fragile states. There has been progress in this respect, including the recruitment of new staff. We have also provided input into the Bank's review of the Education for All Fast Track Initiative (FTI) the global partnership to help low-income countries meet the education MDGs. Our efforts have focused on determining the reasons for the slow disbursement of FTI funds and we will continue to push for improvements.

We have also continued our engagement with the Bank on gender. This is an area which the Bank clearly needed to do more to mainstream. We have provided funds to support the implementation of the Bank's Gender Action Plan. A DFID Director General sits on the Bank's Advisory Council for Women's Economic Empowerment which met three times between June 2007 and April 2008. At the 2008 Spring Meetings the President announced six new commitments on gender, aimed at strengthening the Bank Group's integration of gender issues into its work.[20] Given

[20] http://siteresources.worldbank.org/INTGENDER/Resources/6NewCommitment.pdf

its comparative advantage, we look to the Bank to provide strong leadership on gender equality in the economic sectors.

Operations and Implementation

The Bank has continued to provide large amounts of financial support to health, education, water and sanitation and other human development projects. It committed $948 million (£490.1 million) to health.[21] It remains the largest single donor in the world in education with lending remaining steady at about $2 billion (£1.0 billion) per year.[22]

In October 2008 the Bank launched a new Adolescent Girls Initiative. This aims to address the economic needs of adolescent girls and young women in poor and post-conflict countries, scaling up collaboration between the government of Liberia, the Nike Foundation and the Bank. The programme aims to develop and test business development skills training and services, technical and vocational training, access to micro finance, life skills training and mentoring and apprenticeship programmes to promote the economic empowerment of adolescent girls and young women. Also at the Annual Meetings, we announced that DFID Nepal would contribute £2 million over three years to the initiative.

A $150 million (£77.6 million) loan was provided to Kenya to increase access to reliable, affordable and sustainable water supply and sanitation services and improve water and wastewater services.[23] The Bank has been working with the African Development Bank, European Commission, Canada, Germany, Ireland, The Netherlands and the UK to support essential services in health, education, agriculture and water in Ethiopia. 2008 saw a new $215 million (£111.2 million) grant approved, bringing the total IDA financing of the project to $430 million (£222.3 million).[24]

In education the Bank approved a $300 million (£155.1 million) loan to Colombia designed to increase the enrolment and graduation rates of students attending universities and colleges, particularly those from economically disadvantaged backgrounds.[25] Azerbaijan received a $25 million (£12.9 million) loan to support education and learning.[26]

---

[21] World Bank Annual Report 2008, page 17
[22] World Bank Annual Report 2008, page 18
[23] http://web.worldbank.org/external/projects/main?Projectid=P096367&Type=Overview&theSitePK=40941&pagePK=64283627&menuPK=64282134&piPK=64290415
[24] http://web.worldbank.org/external/projects/main?Projectid=P106559&Type=Overview&theSitePK=40941&pagePK=64283627&menuPK=64282134&piPK=64290415
[25] http://web.worldbank.org/external/projects/main?Projectid=P105164&Type=Overview&theSitePK=40941&pagePK=64283627&menuPK=64282134&piPK=64290415
[26] http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=40941&menuPK=228424&Projectid=P102117

9. Growth and Trade

Rapid and sustained growth is critical to making faster progress towards the MDGs – and not just the first goal of halving the global proportion of people living on less than $1 a day. The current economic crisis threatens to undermine progress in reducing poverty – it is estimated that a 1% decline in developing country growth rates traps an additional 20 million people in poverty. A strategy to bolster growth and trade must therefore be at the heart of our response.

Policy and Strategy

DFID supported the work of the Growth Commission, created in 2006 and hosted by the Bank, which in May 2008 launched its final report. The Commission brought together high level academics, politicians and developing country leaders to frame the current debate around growth and development in poorer countries.

The Bank's annual *Doing Business* report – ranking 178 economies in terms of the quality of their investment climate – continues to be an influential policy tool. DFID engaged closely with the Bank, including on ways to develop further some of the indicators.

DFID provides financial support to and engages closely with the Bank's investment and financial services branch. In 2008 DFID has used its expertise to shape individual projects and overall strategy. The focus of our joint work is on broadening and deepening financial markets, with a focus on enhancing access to finance for people in developing countries, particularly in Africa. The second phase of the Financial Sector Reform and Strengthening Initiative (FIRST), helping developing countries to develop their financial sectors, is now underway.

The Financial Sector Reform and Strengthening (FIRST) Initiative

FIRST is a multi-donor grant facility providing technical assistance (TA) to promote financial sector strengthening. It was launched in 2002 by the Canadian International Development Agency (CIDA), DFID, the International Monetary Fund (IMF), the Ministry of Foreign Affairs of The Netherlands, the State Secretariat for Economic Affairs of Switzerland (SECO), the Swedish International Development Cooperation Agency (SIDA), and the World Bank. The World Bank manages the FIRST Initiative on behalf of the donors. FIRST has been extended to 2012 with funding of $100 million in total, based on its success in the first four years of its operations.

DFID worked closely with the Bank to launch the new Making Finance Work for the Poor partnership. We also collaborated with the Bank on a number of activities relating to gender, including measures to ensure that gender issues are incorporated into the Bank's work at the country level and integrating them into the *Doing Business* report.

Operations and Implementation

The Bank's trade strategy aims at: promoting an international trading system that is more supportive of development; making trade and competitiveness a centre-piece of countries' development strategies; and supporting trade and competitiveness reform through effective Aid for Trade.[27] Trade related World Bank lending has grown from $560 million (£289.5 million) in 2003 to $1.4 billion (£723 million) in 2008, strongly driven by trade related infrastructure in support of regional integration, export development and competitiveness, and trade facilitation.[28]

In 2007 DFID, the Bank and Sweden launched the Multi-Donor Trust Fund for Trade and Development including $24 million (£12.4 million) of UK funding. The trust fund provides resources to the Bank to support trade-related activities at the country, regional and multilateral level including development of a trade and competitiveness strategy for Tanzania and capacity building and technical assistance for the accession of Laos to the WTO.

The Bank has continued to invest in efforts to increase trade. In 2007 it approved a $201 million (£103.9 million) investment in regional trade facilitation in the Economic and Monetary Community of Central Africa (Communauté Économique et Monétaire de l'Afrique – CEMAC). The project takes a comprehensive approach; improving road and rail infrastructure, security and safety in ports, as well as support for the regional customs union and national governments.[29]

In addition to the IFC's Global Trade Finance Program, the World Bank is currently expanding its trade facilitation services, including the establishment of a Trade Facilitation Facility (TFF). This Facility will help developing countries reduce the costs of engaging in international trade and thereby take better advantage of global trade opportunities, including reaching import standards so that their exports can successfully enter world markets.[30]

[27] http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20040979~menuPK:34480~pagePK:36694~piPK:116742~theSitePK:4607,00.html

[28] http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20040979~menuPK:34480~pagePK:36694~piPK:116742~theSitePK:4607,00.html

[29] http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=40941&menuPK=228424&Projectid=P079736

[30] http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21996518~pagePK:34370~piPK:34424~theSitePK:4607,00.html

To complement the Bank's work on growth and trade, DFID recently launched the International Growth Centre (IGC) to provide practical help to the governments of developing countries to support growth and improve their ability to cope with effects of the economic downturn. The centre will be a unique resource giving developing countries a hotline to the advice of world-class experts – for example on finance, agricultural yields, the energy sector or policies for the economy as a whole.

10. Debt

In the period covered by this report the Bank continued to provide millions of pounds in debt relief to the world's poorest countries and work to ensure that new lending is sustainable. The UK also continued to meet its responsibilities as part of the international effort to support debt cancellation to benefit the poor and tackle the problem of vulture funds.

Policy and Strategy

Heavily Indebted Poor Countries Initiative (HIPC) and Multilateral Debt Relief Initiative (MDRI)

In 2007 Sao Tome and Principe and Gambia completed the HIPC Initiative, bringing the number of countries that have received irrevocable debt cancellation to 23. In 2007 the Central African Republic and Afghanistan passed the first stage of HIPC and they are now receiving interim relief on their debts. In 2008 Liberia and Togo did the same.

We have continued to encourage the Bank to take a flexible approach when assessing whether countries should receive debt relief. For example the UK worked closely with other members of the international community to clear Liberia's debt arrears in 2008, so that they could access debt relief under HIPC.

The World Bank has continued to manage the HIPC Trust Fund, which provides grants to other International Financial Institutions such as the African Development Bank, to help them meet the costs of debt cancellation. The UK remains the second largest donor to the HIPC Trust Fund, contributing $65 million (£33 million) during the financial year 2008.

The Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI)

The Heavily Indebted Poor Countries (HIPC) Initiative was launched in 1996. Relief is provided to reduce the debts of the poorest countries to 'sustainable' levels – this is determined by comparing debt level to countries' exports and revenue. HIPC is funded from resources provided by multilateral, bilateral and commercial creditors. Multilaterals cover some of their costs, with donors contributing to the rest on a pay-as-you-go basis through a HIPC Trust Fund.

The debt relief is provided in two stages. At HIPC Decision Point a country receives interim relief on its debt repayments. For this it needs to demonstrate macroeconomic stability, have developed a national poverty reduction strategy, agreed a specific set of reforms it will implement and cleared any arrears to multilateral banks.

HIPC Completion Point is reached when the country has demonstrated a track record of stable economic management, completed the agreed reforms and successfully implemented its poverty reduction strategy for at least a year. At this point, countries receive irrevocable debt cancellation.

The MDRI was agreed by the G8 at Gleneagles in 2005 and cancels 100% of all debts remaining to the concessional lending arms of the World Bank, the African Development Bank, and the IMF when countries reach HIPC Completion Point.

Donors have committed to meet full costs of the debt cancellation provided by the World Bank and African Development Bank. The UK costs are estimated to be £2.6 billion over the period 2007 to 2044.

Debt Sustainability

The main responsibility for ensuring that debt levels are manageable rests with borrowing countries themselves. To assist them, and to guide creditors, the World Bank and the IMF have developed the Debt Sustainability Framework (DSF) to identify prudent levels of debt for different countries. The Bank uses this to guide its own financing decisions, providing grants to countries that might struggle to repay loans.

The challenge is to ensure that all creditors adhere to the DSF, and do not offer countries inappropriate new loans. In partnership with the UK and other donors, the Bank has promoted the DSF with commercial lenders, export credit agencies and other official lenders.

The World Bank and IMF worked closely with the OECD Export Credit Group to agree a set of Sustainable Lending Guidelines for Export Credit Agencies, to ensure that they consider debt sustainability objectives in their lending to low income countries. These guidelines came into effect in January 2008.

To reduce the risk of debts falling into the hands of vulture funds we have been working with the World Bank to help poor countries buy back their commercial debts at a substantial discount through the Debt Reduction Facility (DRF). More than $9 billion (£4.65 billion) of debts have already been cancelled in this way. Last year the UK provided around £1.8 million ($3.5 million) to assist with a DRF operation for Nicaragua. In May 2007 the UK called for DRF assistance to be available earlier for HIPCs to reduce the risk of debts falling into the hands of vulture funds. This was agreed in April 2008 by the World Bank Board. We announced a new commitment of up to £10 million ($19.3 million) for future DRF country operations in May 2008.

Vulture Funds

Vulture Funds are companies that buy defaulted debt of highly-indebted poor nations at a cheap price. Many of these companies seek debt that is about to be written off by debt relief or cancellation, usually at a large discount. These funds then seek repayment of these debts via litigation - suing the country's government for the full value of the debt plus interest to gain large profits.

Operations and Implementation

Debt relief has an impact. Ghana, which saved $60.2 million (£31.1 million) on debt service in 2006, used this to spend more on health, energy, water, and improvements to major highways and rural roads. Honduras used its $29 million (£15 million) of MDRI debt relief in 2006 to eliminate fees for pupils in public schools (equivalent to our state schools). In Tanzania $3.5 billion (£1.8 billion) of debt relief has put 50% more children in primary schools, built 2,500 new schools and recruited 28,000 teachers. In Uganda $2 billion (£1 billion) of debt relief has helped eliminate user fees for healthcare and doubled the use of health services in five years. Malawi received debt cancellation amounting to over $2.6 billion (£1.3 billion) and Government domestic expenditure has almost doubled since 2003-04. Spending has increased on education by $40 million (£20.7 million), on health by $35 million (£18.1 million), public servants' wages are up by $34 million (£17.6 million) and spending on accountability institutions has increased by $18 million (£9.3 million).

11. Priorities and Objectives for 2009

Summary

There has been good progress towards the MDGs since they were agreed in 2000. But the effects of the global ***economic downturn*** could slow or start to reverse that progress. The Bank has a vital role in helping countries ensure that this doesn't happen, while also continuing to help deal with longer-term challenges including ***environmental sustainability and climate change***. The economic downturn may increase the need for aid so making it even more important for donors to deliver on aid commitments. This increases the importance of ***more effective Bank*** aid which delivers more and better results, particularly in fragile and conflict affected countries. Achieving the MDGs will require a step change in support for women and girls in developing countries. So we will work with the Bank to raise its game on ***gender equality***. Underpinning the Bank's ability to contribute to progress on any of these fronts is its accountability, credibility and legitimacy in the eyes of the people it serves and who help finance it. So we will look to improve ***Bank governance***, including by giving developing countries a stronger voice. There are many other issues not highlighted here which will see close engagement between DFID and the Bank in 2009.

Optimal Bank support to countries dealing with the economic downturn

Growth rates in developing countries remained healthy in 2008, but were down from previous years and are expected to fall further in 2009. Food and fuel prices have fallen from their peak levels of 2008, but remain high for many of the world's poorest people. It is now much more expensive for governments to access capital in private markets, private investment has contracted and public revenues are likely to fall as global economic activity slows. In short, it will be harder to finance and implement development projects and developing country governments face hard choices about where to make cuts.

As a major source of development finance and expertise and through its convening role, the Bank has a vital role to play in helping countries respond to these short- and long-term challenges to poverty reduction and in continuing to foster sustainable and inclusive growth. The Bank has stated its willingness to almost triple lending to middle-income countries and accelerate support to low-income countries between now and 2011. We want it to do so in a way which is flexible, has maximum counter-cyclical impact and targets those most in need. So in 2009 we will work with the Bank to:

- Identify the Bank's optimal role in responding to the downturn and ensure it has the instruments and financing to increase lending and provide timely and tailored advice and support that helps the poorest people;
- Increase support for trade and sustainable medium-term growth – including through the Africa Regional Infrastructure Conference in April – and increased support for private sector development and agriculture;
- Enhance the delivery of social services with a focus on improving Bank support for health systems, strengthening the Education Fast Track Initiative and increasing access to social protection.

Stronger Bank focus on environmental sustainability, climate resilient development and low carbon growth

The international community must prevent dangerous climate change by reducing emissions and building low carbon economies, and must help poor countries prepare for the impacts of climate change. 2008 was a watershed for the Bank's work on the environment and climate change with new commitments on lending and ways of working, including through the Clean Energy Investment Framework and the Strategic Framework for Climate Change and Development. The priority in 2009 will be to implement and build on these commitments. In particular we want the Bank to:

- meet the levels of investment set out in the CEIF; deliver on the immediate commitments set out in its 2008 Strategic Framework; and ensure that the CIFs incorporate low/zero carbon programmes and country ownership;
- agree more ambitious targets for energy efficiency/renewables;
- develop a robust Environment Strategy which also sees improved staff resources and skills to deal with sustainability issues.

Improving the delivery and effectiveness of Bank assistance and the way it works with others, especially in Fragile and Conflict Affected Countries

The Bank needs to accelerate the decentralisation of Bank staff and decision–making to the country level. And Bank staff need to adhere more consistently to the letter and spirit of internationally-agreed commitments on how to deliver effective aid and the best possible results. Achieving the MDGs is particularly challenging in fragile and conflict-affected environments. They are often characterised by insecurity and comparatively weak government capacity so making donor co-ordination and the delivery of effective aid even more important. So in 2009 we will work to secure:

- Further decentralisation of Bank staff and decision-making authority with a particular focus on Africa and fragile and conflict-affected countries;
- Agreement in the Board of Executive Directors of a Bank Action Plan setting out how it will deliver on the commitments it made at the Accra High-Level Forum on Aid Effectiveness in September 2008;
- The launch of joint working arrangements between the Bank and the UN in at least two countries, to support early recovery from conflict.

Delivery on gender commitments and stronger focus on supporting women and girls

It is increasingly clear that the most off-track MDGs (e.g. maternal health) are those which most closely depend on improvements in the situation of women and girls. This requires a step change in the behaviour of all donors and international organisations. The Bank recognises this and has made a number of related commitments in recent years, with a particular focus on women's economic empowerment, gender and growth. In 2009 we will look for opportunities in all of our engagement with the Bank to make progress on gender, but in particular:

- More research, evaluation and statistics on gender, including through the more systematic provision of gender-disaggregated statistics and a review of IDA spending in support of better outcomes for women and girls;
- Improved incentives and necessary skills for Bank staff to focus on gender issues;
- Stronger implementation of the Gender Action Plan for women's economic empowerment, and pressing for the gains made through its activities to be translated into more effective interventions across all Banks policies and operations.

Improvements in Bank governance which increase developing country voice and make it more efficient and effective

For the Bank to become more effective its internal governance must be improved. It needs to be seen as more representative in the eyes of its shareholders, closer to its clients and more responsive to their needs. Developing countries should have a stronger say in collective decision making and the Bank needs to become more transparent and better at communicating the results that its work achieves.

The G20 Working Group on Multilateral Development Banks will help set some directions for making these changes. DFID will also be fully involved in discussions in the Bank Board about implementing the components of the voice package which was agreed at the October 2008 Annual Meetings and developing the next set of related reforms. In 2009 we will press the Bank to:

- agree measures to strengthen its internal governance and to agree principles for more radical reform of voice and representation that will lead to a rebalancing of voting power;
- work more closely and effectively with its partners including through regular consultation with a broad range of partners and improved used of conditionality;
- improve its transparency and communication of development results.

How will we engage with the Bank on these issues in 2009?

DFID Ministers, and staff in the UK, Washington and country offices will engage with Bank management and staff at many levels on a regular basis. Major channels for engagement include the resident Board of Directors in Washington and the regular meetings of World Bank Governors in April and October. We will also use a number of special events to secure concrete outcomes that increase the Bank's contribution to achieving the MDGs. These include high-level meetings of the International Health Partnership, the High-Level Task Force on Innovative Financing for Health Systems and the Education Fast Track Initiative, three mechanisms in which the Bank plays an integral role. The Africa Regional Infrastructure Conference in April provides one opportunity to look at how the Bank can contribute to infrastructure and trade development in Africa. We will use the meeting of senior officials at the IDA 15 Mid-Term Review towards the end of the year to monitor the Bank's progress in implementing many of the policy commitments during the IDA 15 negotiations in 2007, on issues including gender equality, financing for fragile states and climate change.

In November 2008, the Leaders of G20 member countries agreed to a substantive work programme in Washington DC, designed to comprehensively address the causes and consequences of the current global economic instability. As part of this, members recognised the important role the International Financial Institutions have to play. The UK currently holds the Chair of the G20 Finance Ministers and Central Bank Governors forum that is carrying out the preparatory work for a further Leaders' summit to be held in London on 2nd April.

The G20 will consider immediate and medium term reform proposals for the International Financial Institutions. Immediate proposals relating to the World Bank will cover the adequacy of resources, support instruments for counter-cyclical policies, and mechanisms to support low-income countries as well as the private sector during crisis periods. The mandate and governance structures of the World Bank will also be addressed. The World Bank is working together with the G20 on delivering immediate and medium term reforms.

Annex 1: UK's financial support to the Bank

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

Core Financial Support for the Bank

The majority of core UK funding to the World Bank goes to the International Development Association (IDA), the arm of the World Bank that provides grants and concessional loans to the world's poorest countries. Donors pledge support to IDA for a three-year period. In 2008, the UK pledged £2.1 billion ($4.1 billion) to the fifteenth replenishment of IDA to be paid in instalments over the next three years. The UK contributed £493 million ($953 million) in financial years 2006/07 and 2007/08 to IDA.

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

Table A1[31]: UK Core Contributions to the World Bank Group[32]

(£ thousand)	2003/04	2004/05	2005/06	2006/07	2007/08
International Development Association	150 000	150 000	364 800	493 333	493 333
World Bank Group TC	–	–	109	–	54
Total World Bank Group	150 000	150 000	364 909	493 333	493 387

Trust Funds

The UK is also a major contributor to trust funds administered by the World Bank Group (mainly IDA, IBRD and IFC). Trust funds cover a wide range of activities. They can be used for the World Bank to provide technical assistance, advice and research, as well as supporting post conflict countries or co-financing projects. Some trust funds support the Bank's own development operations and work programmes. Others support broad global initiatives, such as: the Global Fund to

[31] Source: Statistics for International Development 2007/08, available at http://www.dfid.gov.uk/pubs/files/exp-stats/contents.asp

[32] Previously published estimates of DFID's multilateral expenditure included promissory note encashments, the data presented here include promissory note deposits, in line with international reporting standards.

Combat AIDS, Tuberculosis and Malaria (GFATM); the Global Environment Facility (GEF); and the HIPC Initiative – for which the Bank manages resources on behalf of the international community.

In 2007, the UK was the largest trust fund donor, contributing around £615 million ($1.190 billion). In 2008, the UK continued to be the largest donor to World Bank Trust funds, contributing around £556 million ($1.1 billion).[33]

[33] World Bank Annual Report, 2008 pp 64 table 3.2. All figures are reported on a cash basis, unlike previous reports in which some were reported on an accrual basis. 2007 figures have been restated accordingly.

Annex 2: UK positions on resolutions adopted by the Bank's Board of Governors and Executive Board July 2007 – November 2008

As the highest decision making body of the World Bank Group, the Board of Governors reserves certain decisions from its delegation of day-to-day issues to the Executive Board, including decisions relating to the final standing of the institutions, relations with other institutions and changes to the Articles of Agreement. A list of these decisions is presented below.

Resolution No.	Title	Adoption Date	UK Position
IBRD			
586	Direct Remuneration of Executive Directors and their Alternates	13/08/2007	Negative
587	Financial Statements, Accountants' Report and Administrative Budget	22/10/2007	Affirmative*
588	Allocation of FY07 Net Income	22/10/2007	Affirmative*
589	Transfer from Surplus to Replenish the Trust Fund for Gaza and West Bank	04/06/2008	Affirmative
590	Transfer of IBRD Surplus to Food Price Crisis Response Trust Fund	24/06/2008	Affirmative
591	Direct Remuneration of Executive Directors and their Alternates	25/07/2008	Negative
592	2008 Regular Election of Executive Directors	01/08/2008	Affirmative
593	Allocation of $115 million of FY08 Net Income	09/09/2008	Affirmative
594	Financial Statements, Accountants' Report and Administrative Budget	13/10/2008	Affirmative*
595	Allocation of FY08 Net Income	13/10/2008	Affirmative*

Resolution No.	Title	Adoption Date	UK Position
IDA			
215	Membership of the Republic of Estonia	30/07/2007	Affirmative
216	Financial Statements, Accountants' Report and Administrative Budget	22/10/2007	Affirmative*
217	Latvia – Change in Membership Status	22/01/2008	Affirmative
218	Membership of the Republic of Lithuania	03/04/2008	Affirmative
219	Additions to Resources: Fifteenth Replenishment	23/04/2008	Affirmative
220	Financial Statements, Accountants' Report and Administrative Budget	13/10/2008	Affirmative*

Resolution No.	Title	Adoption Date	UK Position
IFC			
246	Financial Statements, Accountants' Report, Administrative Budget and Designations of Retained Earnings	22/10/2007	Affirmative*
247	Membership of the State of Qatar	13/06/2008	Affirmative

Resolution No.	Title	Adoption Date	UK Position
MIGA			
79	Financial Statements and the Report of the Independent Accountants	22/10/2007	Affirmative*
80	Election of Directors	08/01/2008	Affirmative
81	Financial Statements and the Report of the Independent Accountants	13/10/2008	Affirmative*

* *Indicates Resolutions passed during the Annual Meetings.*

DFID's headquarters are located at

DFID
1 Palace Street
London SW1E 5HE
UK

and

DFID
Abercrombie House
Eaglesham Road
East Kilbride
Glasgow G75 8EA
UK

Website: www.dfid.gov.uk
email: enquiry@dfid.gov.uk
Public enquiry point: 0845 3004100
From overseas: +44 1355 84 3132

02/09 500 Produced for DFID by Stairway Communications, and printed on recycled material containing 80% post consumer waste and 25% totally chlorine free virgin fibre.

ISBN: 1 86192 979 X