



House of Commons
International Development
Committee

**DFID and the World
Bank: Government
Response to the
Committee's Sixth
Report of Session
2007–08**

**Fourth Special Report of Session
2007–08**

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International Development Committee

The International Development Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for International Development and its associated public bodies.

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Committee staff

The staff of the Committee are Carol Oxborough (Clerk), Matthew Hedges (Second Clerk), Anna Dickson (Committee Specialist), Chlöe Challender (Committee Specialist), Ian Hook (Committee Assistant), Sarah Colebrook (Secretary), Alex Paterson (Media Officer) and James Bowman (Senior Office Clerk).

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Fourth Special Report

On 5 March 2008 the International Development Committee published its Sixth Report of Session 2007–08, *DFID and the World Bank*, HC 67-I. On 8 May 2008 we received the Government's response to the Report. It is reproduced as an Appendix to this Special Report.

In the Government Response, the Committee's conclusions and recommendations are in bold text. The Government's response is in plain text.

Appendix: Government response

The Government welcomes the International Development Committee's Report on our engagement with the World Bank. We are pleased that the Committee has highlighted the influence we have and its support for the increased contribution we are making to the International Development Association (IDA) of the World Bank.

Multilateral institutions play an important role in the development architecture. Improving their effectiveness and reforming the international system is a priority for the Government; the main elements of our agenda were set out by the Prime Minister in his speech in India in January 2008. In that speech, he recognised the need for the Bank to reform—to be more representative and effective, to select the President through open competition, and to be better at helping countries tackle poverty effectively, including through putting environmental sustainability at the heart of its work. Taking this forward, we will be working to build consensus for change, both within the institution and with other shareholders.

But this in no way detracts from the fact that the World Bank is a highly effective development organisation. In the last few years, it has played a key role in the success of global initiatives, such as the Multilateral Debt Relief Initiative, as well as continuing to provide high quality support—financing, analysis and advice—to developing countries.

DFID works closely with HM Treasury, as they hold the policy lead for the IMF and the Chancellor is the alternate World Bank Governor. Although outside the scope of this inquiry, we recognise the considerable expertise and experience that Treasury and other Whitehall colleagues bring to our agenda with the Bank.

Our responses to the specific recommendations made by the Committee are given below.

UK contribution to the International Development Association

[Paragraph 22] An effective World Bank is a vital component in the international development system and we welcome DFID's focus on its effectiveness. We note, however, that effectiveness can be assessed at many levels, including organisational, development impact and strategic. We therefore caution the Secretary of State and his team against making bold statements that the World Bank is the most effective multilateral development institution without appropriate qualification. It will only be truly effective from DFID's point of view if it does what DFID wants it to do—if it is

operationally effective as well as organisationally effective. In our view, DFID should concentrate its efforts on assessing the Bank's operational effectiveness in terms of development impact, rather than just its organisational effectiveness, in order to justify the large increases in its funding to the World Bank. We were encouraged to learn about the drive within the World Bank to monitor and analyse results and to make public this work. We would urge the Bank to make this work a priority.

We have been working with other donors to develop analytical tools to enable us to assess the effectiveness of the multilateral organisations more rigorously, and will continue to do so. To inform our view on the effectiveness of the World Bank, and other multilaterals, DFID analysed these organisations' performance on a range of issues, including their effectiveness in achieving results. We agree with the Committee that achieving development outcomes is crucial. As part of the IDA replenishment discussions, we secured agreement to a series of measures designed to improve the Bank's performance in helping countries achieve and monitor progress towards their development goals. These included further decentralisation of Bank staff to the poorest countries, a strengthening of the Bank's result-management system, more support for post-conflict states and help to assist countries to improve their statistics capacity.

[Paragraph 25] We welcome DFID's decision to increase its contribution to the World Bank's International Development Association but we believe that it did so with insufficient rigour. In developing its strategic approach to the funding levels, it is right that during the negotiations DFID assessed both the Bank's effectiveness and its responsiveness to DFID's own priorities for the Bank. We look forward to examining the Deputies' Report for evidence of DFID's influence on the negotiations. An explanation of the strategic approach is not, however, the same as an explanation of the mechanics of the decision itself. The Minister's assertion that a 49% increase in the commitment was in line with the increase in DFID's overall budget appears to suggest that the increase was largely mechanical. Without a transparent account of how the increase was decided, we have no evidence to challenge that suggestion. We would have liked to have seen a robust analysis showing that an additional £700 million allocated to IDA would do more to meet DFID's objectives than using the same amount of money for funding another multilateral agency or for bilateral development work. We recommend that DFID publish, alongside the Deputies' Report in spring 2008, a full account of how the increase of £700 million was calculated. Given the very large sums involved, we further recommend that DFID ensure that, as well as conducting a new assessment of the Bank's organisational effectiveness, a full review of the World Bank's development impact is conducted and published before the next IDA replenishment round is launched.

DFID welcomes the Committee's support for our increased contribution to IDA. As with any spending decision such as this, a wide range of factors are considered and assessed before a final contribution is decided. In this instance these included the contribution the institution could make to achieving the Millennium Development Goals with different levels of resource, the role the institution plays in the international system, the level of financing provided by other donors, the reforms that our financing can bring about, and the other possible uses for the resources. Decisions on our negotiating priorities and the level of our contribution were informed by views from DFID teams on the effectiveness of the World Bank also in country.

We have already published the Multilateral Effectiveness Summaries for a number of large multilaterals, including the World Bank. These were produced for the first time last year as part of increased efforts by DFID to encourage the international community to take a more systematic look at the effectiveness of the multilaterals. The summaries draw on published material and cover a large number of topics, under four headings: the results the organisation achieves, the way in which it is managed, its effectiveness in working with others, and the emphasis placed on ensuring high quality evaluation and lesson learning. Other evidence we took into account included the Client Survey undertaken by the Overseas Development Institute, and the multi-donor Multilateral Organisations Performance Assessment Network report on the World Bank. These reports are also published.

To inform discussions during the IDA 15 negotiations, the World Bank produced material on what had been achieved with IDA resources in recent years. Many country and project studies can be found on the World Bank website under the heading “IDA at Work”. We and others continue to press the Bank to develop this work, so that they can provide donors with further information on the development outcomes achieved with IDA resources ahead of the IDA 16 discussions. In addition, the Independent Evaluation Group produces annual reports on the Bank’s effectiveness, as well as studies on specific topics. Finally, the Bank has committed itself to the Paris Aid Effectiveness agenda. A baseline has been set on its performance against the Paris targets, and this was used in the IDA negotiations to identify areas where the Bank needs to take action to fulfil its Paris commitments. Information will be available ahead of the next IDA negotiations on how far the Bank has improved its performance against these indicators.

Alignment of policy priorities

[Paragraph 33] It is crucial that each of DFID’s spending decisions is linked to the eradication of poverty and attainment of the Millennium Development Goals, irrespective of the way in which the money is channelled. Early and robust assessments of the impact of any proposed course of action on poverty is an effective safeguard against bad spending decisions. We believe strongly that more consistent and transparent use of impact assessments by the World Bank across all of its lending is the single most important change in Bank practice that DFID should be pursuing. We were therefore disappointed to learn that this matter had disappeared from DFID’s annual publication on the World Bank as the result of an apparent oversight. We recommend that DFID renew its commitment to this safeguard and press for impact assessments by the World Bank which: are rigorous and systematic; enhance borrower country capacity to assess the World Bank’s impact; and examine a range of alternative courses of action to find the option that has most benefit for the poor. Such assessments should be published and circulated within civil society in the borrower countries. We recommend that DFID also encourage greater World Bank focus on the issue of incentives for staff to integrate such full impact assessments into their work. Given the strength of our view on this issue, we further recommend that this position is reflected in all DFID’s budget discussions with the World Bank and that consideration should be given to taking any lack of progress into account in future funding rounds.

We agree that early and high quality impact assessments are important and we have been at the forefront of donor efforts to push forward this agenda. The Bank now makes much wider use of Poverty and Social Impact Analysis (PSIA) to inform their programmes. This type of analysis also allows governments to anticipate any short-term negative impacts of policy changes, and take appropriate action.

We agree that the Bank can do more, and that local capacity needs to be strengthened. We will continue to encourage the Bank to respond. During the IDA 15 negotiations, the Bank agreed to a series of measures to improve its performance on impact assessment, including producing a revised good practice note in 2008 and an independent review of its PSIA work.

We will consider the Bank's performance on this and a range of other factors when considering future funding. We will provide updates on impact assessment in future Annual Reports.

[Paragraph 42] Conditionality remains a contentious issue for many civil society commentators. We have not been persuaded that the World Bank is pursuing an aggressive policy of imposing burdensome, sensitive policy reform conditions on borrower countries, although we accept that there are some cases where this has happened in the past. We do however share some of the concerns expressed to us about ownership of the development process by developing countries. There are no short-cuts in development. World Bank diktat is no substitute for thorough debate and engagement of parliaments and other stakeholders by the borrower country government. It is only by this latter means that a resilient development programme with broad domestic support can be achieved. We recommend that the UK Government develop, with like-minded countries including borrower nations, a proposal for independent monitoring of World Bank conditionality to ensure that all the Good Practice Principles, especially ownership, and dialogue with parliaments are fully reflected in World Bank practice.

We agree with the finding that the Bank is not pursuing an aggressive policy of imposing conditions on borrower countries. The UK has led the international debate on conditionality reform and helped secure real improvements in the Bank's use of conditionality. The Good Practice Principles were agreed after a thorough review that the UK pressed for, and we continue to emphasise to the World Bank the importance of implementing them effectively and consistently. The Bank's 2007 review of its use of conditionality, which the UK also pressed for, involved extensive consultations with developing country partners. This showed that the Bank had made good progress, but once again, the Bank itself acknowledged that there was room for improvement. The Government's sustained engagement has achieved important results, and we continue—both through the IDA process and in other fora—to urge the Bank to improve further. The Bank made a number of commitments during the IDA 15 negotiations, for example to improve staff incentives to implement the Good Practice Principles and increase country ownership; to improve the use of Poverty and Social Impact Analysis to allow a better understanding of the impact of policy choices on the poor; to strengthen local capacity for policy analysis to increase local participation in policy making; and to more

decentralisation of staff to enable the Bank to be more responsive to governments and to work better with civil society locally. The Bank has also agreed that the Independent Evaluation Group (IEG), which is independent of Bank management, should carry out a review of the Bank's use of conditionality.

[Paragraph 46] We believe that the Millennium Development Goals will never be achieved if women's empowerment is not central to development efforts. The World Bank's action plan on gender, launched last year, was overdue. Strategic commitments and associated actions on economic empowerment of women may, if based around the clear principles of women's rights, provide sufficient scope to hold the Bank to account across the range of its activities. We recommend that the Government assess now how it can best support and improve the plan, and contribute to its mid-term and final assessments, and that it share with us a timed outline of this UK strategy.

We agree that women's empowerment is crucial to achieving the MDGs. The UK Government's strategy of supporting, improving and assessing the plan has a number of components including: regular dialogue between the Secretary of State and the Bank President; the participation of DFID's Director General for Policy and International on the Bank's Gender Advisory Council; liaising closely at official level with Bank staff and other Bank shareholders; and using Board discussions to assess progress and encourage accelerated action.

[Paragraph 48] We endorse DFID's practical support for the Bank's decentralisation initiatives, especially in Africa, and recommend that DFID continue to build up its advisory and knowledge-sharing role in this area.

We welcome the endorsement and will continue to share our knowledge and experience with the Bank in this area.

[Paragraph 52] We welcome the priority that DFID has given to securing greater focus by the World Bank on country-level effectiveness and fragile states. As a result of the prominence of these themes in the International Development Association negotiations, we look forward to more intensive World Bank activity in both these areas of work. DFID must recognise, however, that changes in the focus of the World Bank may need to have a consequent impact on DFID's own resources. We recommend that DFID reassess its staffing arrangements and analytical capacity in both these areas of work to ensure that it can carry out satisfactory oversight of the Bank.

DFID devotes considerable staff resources to working on country-level effectiveness and fragile states issues, both in headquarters and in country. We work closely with the Bank on policy issues, both directly and through the OECD Development Assistance Committee working group on fragile states. At the country level DFID teams work closely with Bank staff on programmes. We have been clear on the ways in which the Bank needs to improve its performance, and have raised with them specific concerns arising from our work in country. The appointment of a full-time UK Executive Director to the World Bank will also enable greater oversight of the Bank's work on these and other issues.

Staffing

[Paragraph 58] We support the Secretary of State’s decision to appoint a full-time UK Executive Director to the World Bank. It is appropriate recognition of the need for UK oversight of the Bank to be as well-resourced and comprehensive as that of other delegations, if not more so given the UK’s role as the largest bilateral contributor to the International Development Association. We are glad that the Secretary of State listened to our representations about this matter and take some satisfaction from the part that we appear to have played in changing the policy, especially given the surprisingly vigorous defence of the shared directorship provided to us by the UK delegation. We recommend that DFID take up all adviser slots available to it in Washington—the UK cannot afford to be under-resourced at a time when its oversight of and influence over the World Bank must be as strong as possible.

We welcome the Committee’s support for our decision to appoint a full-time Executive Director to the World Bank. To date, the Government has appointed a single UK Executive Director with responsibility for both the IMF and the World Bank. Our increased engagement and support for the Bank warrants a change to these arrangements, and an Executive Director devoted entirely to Bank business will give us greater capacity to pursue our objectives effectively. We will continue to assess the level of staffing required to carry out our work with the Bank, and make adjustments when necessary.

Trust Funds

[Paragraph 63] On current trends, UK funding for World Bank-managed Trust Funds will soon match UK funding for the International Development Association. Some of these Funds are largely autonomous institutions with which DFID will need to engage directly to influence policies. For those for which the World Bank is both financial agent and policy lead, DFID is right to provide support if such Funds can add value to the work done by the Bank’s major institutions and reduce the burden on borrower countries. We are concerned however that any further proliferation of Funds could distract World Bank shareholders from the key challenges ahead with regard to its main institutions, such as ensuring IDA effectiveness and progress on governance reforms. We recommend DFID resist proposals to set up any further Funds or where it supports such proposals—for example on climate change—provide us in advance with the rationale for its support.

How best to manage and spend scarce aid resources is a constant consideration for both DFID and the Bank. In some circumstances setting up a Trust Fund in the Bank is the best option for achieving a specific goal. We will keep Parliament informed of our work on Trust Funds via our Annual Report on DFID and the World Bank.

Governance and accountability

[Paragraph 70] Adequate representation of developing nations in World Bank decision-making is not only a question of fairness, it is one of effectiveness: we believe greater ownership and buy-in by developing countries will lead to more effective Bank programmes. The Government has been better at setting out this argument than at

developing a solution to the problem. As we have stated, the UK has a responsibility as a leading nation at the Bank to act decisively on these issues.

The Prime Minister made clear in his speech in India in January that we must do more to make our global institutions more representative and effective.

The UK showed leadership at the April 2008 World Bank and IMF Spring Meetings and secured agreement in the Development Committee communiqué that a package of measures to increase the say that developing countries have in the Bank should be developed and agreed upon by the 2009 Spring Meetings. The Government will work hard to try and ensure that this is achieved.

[Paragraph 71] We believe that double majority voting has some merit and is worthy of serious study by DFID. We recognise, however, the difficulties of securing any reform to the voting arrangements: the Bank is run as a shareholder organisation and donors are unlikely to wish to cede large amounts of power. While votes are important, the outcome of any renegotiation is unlikely, in our view, to deliver more than minor changes. The UK should therefore prioritise action on practical and immediate changes which can help to rebalance the Board to give developing countries a greater voice. In our view, the most critical Board reform issue is the representation of African countries and the capacity of these delegations. As a priority region for the World Bank and the continent facing the biggest challenge in terms of the Millennium Development Goals, Africa should have at least one more Executive Director on the Board. We recommend that DFID pursue this objective as a priority and separately from any broader reform deal. Moreover, given that the Trust Fund set up to support African Executive Directors is not delivering the desired results, we recommend that the UK urgently propose a new method, and consider providing new and additional money, for developing greater capacity in these delegations.

We are willing to consider any options that will increase the say of the poorest countries and that can command the support of the shareholders. We have already initiated discussions with African and European partners about the next steps on the Analytical Trust Fund.

[Paragraph 75] There is a broad consensus that selection of the President of the World Bank, one of the most influential figures in international development, should be transparent and based on merit, rather than in the gift of the United States. The Government supports this position and made some effort to change the system during the selection of President Zoellick. We recommend that DFID initiate work now towards agreeing an open and merit-based process for selecting his successor. Such a strategy would need to include giving up Europe's monopoly on the post of Managing Director of the International Monetary Fund. The UK should use its role as the largest contributor to the International Development Association and its related increased leverage in Washington to bring about such a 'grand bargain'. DFID should ensure that, as part of the review of the selection process, systems are put in place to evaluate the performance of the President during his or her tenure.

We agree that the practice of selecting the heads of the World Bank and IMF on nationality should end. Successive White Papers on development have made clear that we want to see a merit-based appointment. This is an important element of our agenda to make global institutions more representative and effective. The Board remains responsible for evaluating the performance of the President.

[Paragraph 81] The World Bank argues that its founding articles restrict its ability to engage with political actors beyond governments. The Bank has, however, made some efforts to engage with and consult parliaments and civil society on some policy and operational matters with mixed success. We believe such engagement is particularly important in borrower nations where it has the potential to bring about national debate and ownership, which could significantly enhance World Bank performance as well as strengthening accountability in those countries. We recommend that DFID encourage the World Bank to adopt outreach strategies with parliaments and civil society consistently across its programmes, especially with borrower countries.

We agree and will continue to encourage the Bank to do so.

[Paragraph 82] Parliaments have a central role in overseeing government expenditure of national budgets. Those elements of national budgets which are donations to the Bank or assistance from it should fall within that oversight. In our view, it follows that the Bank should make itself available to provide formal evidence and information directly to parliaments to complement that provided by governments, as other multilateral organisations such as the United Nations do. We recommend that DFID ensure that the Bank's policy of refusing to appear formally before parliamentary bodies is discussed at the Board of Directors within six months; that it push for a change in the policy; and that it report back to us on those discussions.

The Bank is accountable to its Governors who are Ministers and in turn accountable to national parliaments. Bank staff provide—and are encouraged to provide—briefings and information to legislative bodies on the Bank's work. As the Committee noted, Bank management made considerable time available for discussions to inform this Inquiry, arranging for senior staff to be available for discussions with the Committee. We also encourage the Bank to increase their efforts to brief parliaments in borrowing countries on their work. However, given that the Bank has 185 members, it is unclear that the benefits arising from more formal procedures would be sufficiently high to warrant the increased burden this would place on the Bank's top management and the increased administration costs that would be incurred.

[Paragraph 83] The Parliamentary Network of the World Bank plays an important role in the Bank's relations with parliamentarians. It receives help in cash and kind from the World Bank but we believe that it would be more effective and more independent if it had a larger secretariat of its own. We ask DFID to consider how it and other donors could provide funding for a larger PNoWB secretariat and for its outreach activities with parliamentarians, especially in developing countries.

We remain in contact with PNoWB as it seeks to develop its strategy. Any request from PNoWB for DFID to help fund a larger Secretariat would be considered in the light of this

strategy. Both we and the Bank have indicated our willingness to help support PNoWB in the strategy formulation process.

[Paragraph 87] Given the priority the Prime Minister and the Secretary of State attach to World Bank reform, it is perplexing that British advocacy of that agenda in Washington is not more high-profile. We assume that not all of DFID's work on this issue is in the public eye—nor should it be. Advocacy does require some public position-taking, however, and we recommend that the Government do so more consistently in Washington.

The Prime Minister, ministers and officials (including from DFID, Treasury and the FCO) have regular dialogue with the US Government on development issues, including the reform of the World Bank, both bilaterally and for example in G8 and G20 meetings. However, we agree with the Committee that we need to further strengthen our capacity in Washington on development issues, and so we are creating a new post in our Embassy.

[Paragraph 88] We accept the Minister's view that developing countries must also advance a view on reform issues. We reject, however, the implication that the UK should wait until they do so. As a major shareholder and contributor to the World Bank, the UK has a distinct leadership role. The UK must not only articulate a vision for reform of the World Bank but it must pursue this with vigour, building alliances with borrower countries and with other like-minded donors in and outside the European Union.

The Prime Minister's speech in January set out our vision for more representative international financial institutions. The UK was instrumental—including through the Ministerial statement—in securing a commitment from the Bank's Development Committee at the Spring Meetings in April to try and reach consensus on a comprehensive package on voice and participation in the Bank by the 2009 Spring Meetings. We are also working through other channels, for example the G20, the Commonwealth and events such as the the Progressive Governance Conference in London, to advance this agenda.

The World Bank as a 'knowledge bank'

[Paragraph 93] The World Bank has come to occupy the role of foremost source of international development knowledge, advice and analysis. Development will not succeed through lending alone and we support the Bank's efforts to ensure that it provides intellectual added value to its lending. The Bank's analysis influences decisions across the development community, including DFID's own decisions. DFID must, therefore, be confident that the Bank's knowledge is credible in the way it is both created and shared. We recommend that DFID work closely with the Bank to ensure that its role as a 'knowledge bank' is demonstrably neutral and flexible, providing well-argued menus of best practice options for effective development. This is long-term work and we look forward to a detailed explanation of it in DFID's next and subsequent annual reports on the UK and the World Bank.

We welcome the Committee's support for the Bank's knowledge function. We agree that it is one of the important ways in which they contribute to international efforts to reach the Millennium Development Goals. It has been identified by President Zoellick as one of his

six strategic themes, and work is underway in the Bank to examine how the Bank's contribution in this area might be improved. We will include updates on this work in our Annual Reports as appropriate.

[Paragraph 95] The World Bank's historical financing model whereby interest on loans is a means of compensating the Bank for its advice is sustainable as long as developing countries are willing to accept the arrangement. We see some merit, however, in the World Bank assessing other, more flexible options for financing its services as a knowledge bank. Separating loans from advice might be a more practical way forward than reliance on an old financing model. We believe a plan which allows different income groups to pay for services according to a sliding scale of discounts is one which deserves further feasibility study and we urge DFID to pursue with the Bank's management strategic work on this and other alternatives for unbundling loans and advice.

We agree with the Committee that the Bank needs to provide better services to its borrowing members, and should be ready to implement different models as appropriate. We welcome President Zoellick tasking staff to consider how the Bank can be more responsive to its clients. As part of its middle income countries work plan, the World Bank is developing a business model for fee-based advisory services which we expect to be introduced this year.

[Paragraph 101] DFID has little or no bilateral reach in middle-income countries. It relies almost entirely on multilateral organisations, including to a large degree the World Bank, to extend its reach into these regions. We believe that it is important, therefore, that DFID and the Executive Director's office are fully engaged with World Bank policy in these regions as well as where the UK is a natural partner, such as Africa. This will become even more crucial as the Bank's relationship with these countries continues to evolve away from traditional lending. We recommend that, in allocating the new adviser portfolios that we have recommended should be taken up, DFID ensure that sufficient resources are available in Washington to make good on its promises to influence and monitor as well as finance Bank operations in middle-income countries.

DFID continues to attach priority to addressing poverty and accelerating development in middle income countries, and to pursuing the objectives set out in our Middle Income Country strategy agreed in 2005. Middle income countries play an important role in global institutions. As well as being major clients, they contribute their perspectives and experiences to discussions on Bank strategy and policy, and some have more recently contributed to the concessional funds accessed by the poorest countries. We strongly welcome the fact that there were new MIC donors to IDA this time. DFID and other government departments have a range of interests in middle income countries, and UKDEL staff from DFID, Treasury and the Bank of England work with their counterparts from other delegations to take these forward. These include those delegations representing middle income countries.

The World Bank as a “Bank for the environment”

[Paragraph 106] Climate change is a global challenge but there is convincing evidence that it is a particularly acute one for developing countries. We believe that it is right that the World Bank, a leader in international development, integrates action on climate change into its overall programme of work. However, we would caution against too literal an interpretation of the Prime Minister’s assertion that the Bank should become an ‘environment bank’ as this could compromise its overriding poverty reduction objectives. The urgency of climate change does not lessen the blight of poverty. The Bank is central to international efforts to meet the Millennium Development Goals. This becomes increasingly urgent as the 2015 deadline for the Goals approaches and the Bank and its current resources which were provided for combating poverty must not be diverted from that task. Moreover, fulfilment of this development remit would have a positive impact on environmental objectives because developed countries are less vulnerable to climate change. We recommend that the UK ensure that the World Bank Board monitor and, where necessary, correct the Bank’s strategic direction to ensure that its core development and poverty mandate is not overshadowed. If the Bank is to adopt an additional role as an environment bank it must raise additional funds for this purpose.

The Prime Minister made it clear in his speech in India in January that we want the Bank to pursue an “integrated approach for tackling both poverty reduction and climate change”. President Zoellick has also made it clear that poverty reduction will continue to be the Bank’s core mandate and that actions to tackle climate change need to be ‘baked into’ the development recipe rather than being the icing on the cake. Action needs to be taken now. The problems will be exacerbated if the rate of carbon emission growth is not reduced, and the costs of addressing these problems will escalate. Unchecked, climate change and environmental degradation will reverse the progress on the MDGs. The Environmental Transformation Fund International Window (ETF-IW) is one way in which the UK is providing the additional resources needed to deliver change at the pace and scale required. We will help to capitalise the Strategic Climate Fund managed by the World Bank with money from the ETF-IW. This will help ensure that the ETF-IW is part of a bigger multi-donor effort and help develop a multilateral financing system that is better able to enable developing countries to respond effectively to climate change.

[Paragraph 113] Funding for climate change work introduces two key problems: raising the huge sums of money needed; and ensuring that mechanisms are streamlined and funding is well-coordinated. The World Bank has a role to play in developing solutions to both problems. As a bank, it should help to leverage the money needed and, as a leader in development, it should help to marshal funds and stakeholders. The urgency of the challenge of climate change has triggered a proliferation of bilateral and multilateral funds. We believe that building on the mechanisms already in place is crucial, particularly the Global Environment Facility which operates under the joint aegis of the World Bank and the UN. We would urge the Bank to make this a priority to ensure effective and efficient co-ordinated action.

We agree that effective and efficient co-ordinated action is essential across the entire international system. By signalling our intention to make funds from the Environmental Transformation Fund International Window available to help capitalise the Strategic Climate Fund, the UK has catalysed international discussion and effort to design a more coordinated multilateral approach. The Strategic Climate Fund will have efficient governance arrangements and deliver finance through the existing procedures of the multilateral development banks. It will provide a channel for more coordinated financing. It will also provide an overarching forum for donors and recipient countries to discuss climate related investments. It should therefore increase coherence in the international system.

[Paragraph 114] We welcome the UK's commitment of £800 million to international work on climate change through the Environmental Transformation Fund. Although preparatory work is well-advanced, we are sceptical that creating a new Trust Fund in addition to the dozen or so that already exist within the Bank for such work is the best way forward for this money. It may be that new arrangements are needed but we have not seen evidence which makes explicit the case for them. We recommend that DFID conduct an audit of the current bilateral and multilateral funds available for international climate change work and share this with us before final decisions are taken.

We do not accept this recommendation. There is currently no other multilateral, multi-donor fund in the World Bank which can cover the range of climate change (mitigation and adaptation and energy access) and wider environmental protection (forestry) actions which ETF-IW resources are designed to support. Nor can any other Trust Fund in the Bank provide finance to the other multilateral development banks for these purposes, or provide this finance at the scale and pace needed.

There is a gap in the international aid architecture on climate change financing. This needs to be filled now with arrangements to provide funds for investments at scale and with due urgency. The Strategic Climate Fund and Clean Technology Fund arrangements are not yet finalised. Our intention is to continue to work with interested donors and the Multilateral Development Banks to put arrangements in place quickly to provide bridging finance whilst the new post 2012 climate change deal is being negotiated. We cannot afford to delay this process. We believe that by providing funding in this way we will demonstrate the commitment of developed countries to scale up climate-related financing thus building confidence and so increasing the prospects that the post-2012 deal is ambitious and effective. We will also use the arrangements to pilot approaches to adaptation that integrate it with existing development efforts.

[Paragraph 117] Emissions from extractive industries are major contributors to climate change which, as we have set out, has a disproportionate impact on developing countries. The Bank is right to take a pragmatic line, supporting energy investments which provide essential services to poor people. But, given the urgency of the climate change challenge, such investments should examine all viable options and favour where practicable the environmentally cleanest option. This will entail a greater weight of subsidies for clean, renewable energy and less for extractive industries and this rebalancing should be happening at a faster rate than is currently the case. We

recommend DFID lead the Board towards using the Bank's substantial resources and leverage to make investment in renewables more financially viable.

The Bank is already playing a key role in supporting developing countries' efforts to increase access to energy and to move towards cleaner energy development paths. In 2006 the Bank increased its financing of renewable energy and energy efficiency projects by 45%. We will continue to work to ensure that cleaner, more efficient energy solutions, including renewable energy, are given priority in order to increase Bank investments in low or no carbon energy technologies.

Conclusion

[Paragraph 119] DFID's clarity of purpose and effectiveness have set the standard for many bilateral development agencies. It must now aim to do the same for multilateral organisations, particularly the World Bank. In this inquiry, we have seen that DFID's influence is already being felt. Given the urgency of the effort on poverty and the scale of the sums entrusted to the Bank to contribute to that effort, DFID must demonstrate not only excellent partnership skills but equally good leadership skills in its future relationship with the World Bank.

We thank the Committee for the report and their advice. The Government has identified reform of the international system as a priority, and we are investing large and increasing amounts of time and energy into bringing about change. The World Bank is a highly effective part of the system and makes a key contribution to international efforts to reduce global poverty and ensure sustainable development. We, and the Bank, recognise that it can improve, and we will work with Bank management, and other shareholders, to bring about the changes necessary to maximise its contribution to the Millennium Development Goals.