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International Development
Committee

**DFID and the World
Bank**

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Oral and written evidence

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International Development Committee

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Letter to the Committee from Robert B. Zoellick, President of the World Bank (dated 14 August 2007)

Oral evidence

Taken before the International Development Committee

on Tuesday 20 November 2007

Members present

Malcolm Bruce, in the Chair

John Battle
Hugh Bayley
Richard Burden
Mr Stephen Crabb

James Duddridge
Ann McKechin
Jim Sheridan
Sir Robert Smith

Witnesses: **Mr Michael Hammer**, Director, One World Trust, **Mr Jeff Powell**, Co-ordinator, Bretton Woods Project, and **Ms Nuria Molina**, Policy Officer, European Network on Debt and Development (EURODAD), gave evidence.

Q1 Chairman: Good morning. Thank you very much for coming in to help us with our inquiry into the World Bank and, particularly, obviously, Britain's relationship with the World Bank and the extent to which the World Bank delivers on UK development objectives. I think it would be helpful for the record if you could introduce yourselves and your organisations, briefly, so that we can then move on to the questions.

Ms Molina: Good morning, I am Nuria Molina from EURODAD (European Network on Debt and Development). I am a Policy Officer, dealing mainly with international financial institutions.

Mr Powell: Good morning, my name is Jeff Powell. I am the Co-ordinator of the Bretton Woods Project, a UK NGO.¹

Mr Hammer: Good morning, my name is Michael Hammer. I am the Executive Director of the One World Trust, an organisation that is looking at accountability in global governance.

Q2 Chairman: Thank you very much for that. Obviously, we have seen some of you before and had discussions, and there has been a long-standing debate about conditionality and the extent to which the Bank imposes conditions. There has been a lot of analysis of this and how effective it is, and from our point of view what we are interested in, as the British Government is giving £1.4 billion over three years to IDA,² is that it is delivering in accordance with our policy, which is poverty reduction, in particular. The UK National Audit Office has said that the World Bank appears to perform best of all the multilateral organisations. Do you agree with that assessment?

Mr Powell: Perhaps I will start on that issue. There have been, as you are, I am sure, now aware, a number of these assessments of the effectiveness, which used various metrics to look at the multilateral institutions—questions of predictability, concessionality, flexibility, co-ordination with other agencies, use of budget support—and on these metrics the World Bank does

quite well, and we think the World Bank performs quite well, though with the caveat that on some of these measures, particularly, and I have noted, the use of conditionality and co-ordination with other agencies and predictability, the UNDP,³ for example, seems to be performing better. So that is a clear signal that we are getting from these assessments. We also have the perceptual survey, such as what was conducted by the Overseas Development Institute, and in those cases we see that what is influencing the perception quite substantially is the governance of these institutions and a perceived policy bias. From that study the World Bank does less well. Having considered both of those, I think, conferring with my other colleagues in NGOs that work on development finance issues, what we do not want to have is that this becomes a purely technocratic exercise; that, really, what we should be focusing on is the impact assessment question. Not too long ago ODI did a study where they looked at aid effectiveness and they constructed a graph where they had, on one axis, low effectiveness to high effectiveness and, on the other axis, they had doing what you want and not doing what you want. Of course, any institution can be very effective at doing what you do not want it to do. So, I think, very often when you hear critiques from civil society about the actions of the World Bank it is not that it is not effective in these fairly technocratic senses, it is that there is a feeling that the Bank is not doing what civil society would like it to do.

Q3 Chairman: Do you mean civil society in the developing country?

Mr Powell: I am having to use a lot of shorthand today, unfortunately, as always. I am referring here to many of the networks that we are involved with, north and south, who focus on development finance issues. Just to finish, if we are emphasising this question of impact evaluation, some of the impact evaluations that have been done by the Bank's own evaluation unit are quite important to look to. Last year's annual review of development effectiveness

¹ Non-governmental organisation

² International Development Association (the World Bank's concessional lending arm)

³ United Nations Development Programme

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conducted by the Bank's evaluation unit said that the Bank had been reasonably effective at getting countries on a growth path, but that it had not been as effective as it should be at understanding the distributional impacts of that growth path—so, in other words, understanding whether or not that growth path was actually helping the poor. I think that was quite an important lesson coming from the evaluation unit. That was looking at the public sector work. Looking at the private sector work of the Bank, the evaluation unit was actually much more harsh, saying that there was very little evidence that the IFC⁴ was looking at distributional paths or at evaluating the value added, in terms of poverty reduction, of the Bank's work. So these are the kinds of things that we are more focused on in feeling that the Bank needs further reform and needs to work on a number of counts in improving its effectiveness towards poverty reduction.

Ms Molina: Particularly in the area of conditionality, it is one of the areas identified by these different comparisons of the effectiveness of different multilaterals, and a lot of them seem to coincide with the fact that in conditionality, which is crucial, the Bank has been performing quite low and there is still great scope for improvement.

Mr Hammer: I think, at the entry points, where they are doing well is a really interesting one because it all depends from which perspective you see it. The assessment that we did, including the World Bank in 2006, was one trying to understand whether there was an effective possibility for stakeholders that are affected actually to have input into how the World Bank makes its decisions. One of the things that one finds is that if you consider the World Bank to be one of the biggest global operators that has most influence in the world, and if you are then searching for the common principles of accountability and how that is reflected in governance, then you find that the record of the World Bank in terms of its performance of its governance systems is actually relatively mixed. So we do find that the World Bank is doing quite well, for instance, on the ways that it evaluates its programmes and the way that it is handling external complaints through, for instance, its inspection panel, but it is very, very weak when it comes to its ability to be transparent and its ability to be really participative, in the sense that stakeholders who are affected, living in the countries in which most of the World Bank funding is going to, in terms of the programmes that the Bank implements. There is very limited opportunity for people in those countries, or through their representatives, for instance, in Parliament, to actually input and exercise some form of control over what the World Bank does. There is—and that is quite crucial, also—only a very limited degree of transparency about how the decisions are being taken. So when you are asking the question whether the Bank is doing well and when you are looking at the policies and the systems that the Bank has in place in order to be accountable to the stakeholders, meaning the people that it affects most, then the record is fairly

mixed and there are only very few dimensions, such as, for instance, its ability to evaluate its programmes, where it actually has some significant good practice in place that others can learn from. For other dimensions of accountability, I think, it is more for the World Bank to look at other global organisations to learn from them.

Q4 John Battle: Do you think the World Bank actually lists who the stakeholders are that it should consult? In other words, obviously, governments, dealing bilaterally and directly. Business? Civil society? Local government? Does it actually provide a list and have any template of who it might build those relationships with?

Mr Hammer: To our knowledge, there is no such list. It is a big question whether a standard list would be useful. What we would like to see is a policy that sets out with whom the World Bank commits to engage when it does take decisions, more in terms of the typology rather than to say: "These are the organisations: A, B, C and D". We are looking at long-term processes and so organisations would come on and off, and it would be a huge effort to keep that list up to date, but I think a policy that would set out what types of organisation and what level of stakeholders is we want to see. There is an issues and options paper at the World Bank which is providing some guidance which staff can take on, on a voluntary basis, but the World Bank at a high level fails to commit to make that policy, and I think that is one of the biggest issues.

Q5 Chairman: The Secretary of State in the debate we had in the House of Commons last week, indicated (I think he put it as a sort of rhetorical statement) that the Government would be putting more funds through multinational/multilateral agencies, and they also have a rising budget.⁵ It was in the context of a debate saying: "We do not want you to do the wrong things for the wrong reasons; constrained by staffing, to be giving money to multilateral agencies simply because you cannot do it in-house". His response was, on the contrary, there is a clear role for expanding the contribution through multilateral agencies. So that was a clear statement by the Secretary of State that he felt that was a proper way to deliver and distribute more of a growing aid budget. In that situation, given the criticisms (and I accept that they are qualified, not comprehensive criticisms) of the World Bank, if you were in the Secretary of State's position or advising the Secretary of State and saying: "I have got reservations about the World Bank", what other organisations would you prefer to put money into, either in total or in part? If you were in that situation how would you distribute it? If you think the World Bank is flawed what are the agencies you think would do a better job?

Mr Powell: You ask a very easy question, of course, as this Committee is prone to do! We would not, I do not think, for a moment, want to downplay the fact that I think DFID is very seriously considering how

⁴ International Finance Corporation (the World Bank's global private sector development finance institution)

⁵ See HC Deb, 15 November 2007, cols 869–929

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to allocate increased ODA⁶ amongst various channels and that, in fact, this is a very difficult decision. It is not a technocratic exercise, it is a political decision. What UK NGOs would like to see is more transparency about how these decisions have been arrived at in the past and how they might be arrived at in the future, with more involvement of broader stakeholders who have an opinion on these issues. I probably do not want to get into a “Take-this-much-money-and-put it-with-this-institution” game, in that I might get in trouble with many of my colleagues in the networks I work with, but I think what they would agree is that DFID needs to have a vision of which institution should play which role and a clear agenda for reforming those institutions so they can most effectively play that role. So there is the question of how do you then get change in these institutions. This gets us into the question of the IDA allocation and how we feel DFID should be using what levers it has to leverage change at the World Bank, in the Bank’s case.

Q6 Chairman: Do you have suggestions? We have mentioned other agencies.

Ms Molina: I am not going to provide a final and conclusive response on how much money should be channelled into which institution, but obviously channelling through different institutions implies diversification of risk. It is, as Jeff was saying, a financial contribution but it is also a very political decision and it gives an opportunity to government and particularly to the most progressive donors in Europe. This is a question that, obviously, is being raised within UK politics but it is being raised, at the moment, as well in the context of the later stages in the IDA negotiations and the replenishment round; it is being raised in the context of other European countries, and a number of parliaments and governments are trying to find an answer to this decision. So beyond implications in financial locations, this opens the door to exerting a political influence and being able to foster further change in these institutions, bearing in mind that when comparing different multilaterals we need to identify different flaws in providing aid finance to different institutions which open the door for these governments to try to tackle these different deficiencies in a number of them.

Mr Hammer: I would probably approach the question from the point of view of which are the global public goods that this Government or other governments want to see delivered at world level, and what institutions or what network of institutions of global governance do they want to see in place in order to be able to deliver these goods for world citizens. On that front, I think organisations such as the World Bank are very hard to replace. I think that the Government needs to make choices and, also, see that global governance is not just a matter of state-based institutions but there may be other actors who may well perform roles which currently, in the very long-established state-based system of global governance, are traditionally

occupied by those organisations. I think what we need to look at—and what DFID may want to look at—is which are the global public goods that it wants to support the provision of to citizens, particularly the vulnerable and the marginalised, and which organisations can best deliver them. Also, where it has identified that maybe the World Bank is the best organisation to do that, where are the areas that the Bank can learn from others in order to deliver those goods in an accountable way? Our research really shows that there are lots of opportunities for learning. I think we would not advocate for saying: “Do away with the World Bank, or do way with this or that organisation”; it is about what we want to achieve and whether that organisation is able to deliver on these goals in an accountable way.

Q7 Chairman: I thought it was interesting and, perhaps, instructive that none of you mentioned the European Commission. Louis Michel, I think, two years ago at the seminar we hosted here, said he wanted to see the European Commission develop the capacity to deliver things in a way that the World Bank did, to which the World Bank’s response was: “If I thought they could do it I would be worried, but I know they have no chance”. You do not see the European Commission as really in the frame?

Mr Hammer: Maybe it is going to be interesting, from our perspective, to wait until 4 December when we are publishing our next global accountability report because we are going to be looking there at one European institution; we are looking at the governance and accountability of the Council of Europe. Last year we looked at the OECD⁷ as an organisation as well. I think what it shows is that there are organisations which include countries that are powerful, for instance, also, in Europe, that may have complementary or interfacing abilities to work together with the World Bank. So as we are progressing with this research we may be able to give some more answers.

Chairman: As a former Member of the Parliamentary Assembly in the Council of Europe, I shall look forward to that with interest.

Q8 James Duddridge: To what degree are DFID’s hands tied in relation to the World Bank? Are they effectively contracted to the World Bank and annually expected to incrementally increase their level of funding? To what degree is there discretion over that relationship?

Mr Powell: I think Nuria might have something to say about the question of the aid effectiveness of the EC,⁸ and then can I come back to that question? Is that all right?

Ms Molina: Just a final comment on the European Commission. Since I am based in Brussels, I do not know if I have the response to that but, maybe, I am closer to these institutions. Coupled with the question of how much we have to channel to which institutions, I think it is a crucial question that goes along the lines of: how, as a government, as a progressive donor, can you influence the shaping of

⁶ Official Development Assistance

⁷ Organisation for Economic Co-operation and Development

⁸ European Commission

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the policies and the aid effectiveness of the institutions? I think there is scope for that, but we will come to that later. One of the strengths, probably, of the European institutions (we are aware there have been a number of problems related to the aid effectiveness of the European Commission and the European aid), is that it is multilateral, which is open to change, open to new development and new ways of delivering aid, particularly in terms of issues related to conditionality, but also related to predictability and ownership. So, obviously, this is interesting to explore and this is interesting to support in a constructive way so all the ways of delivering more effective aid can be developed within other multilaterals.

Mr Powell: To return to your question, effectively, how the IDA process now works is that the World Bank staff in countries do assessments of what they think their various portfolios can absorb over the next IDA period. They formulate a grand total request on a number of different scenarios and they then go back to the donors and, basically, ask for an increase on their previous contribution in line with what they would like to increase the current IDA fund to. Is DFID (I think that was your question) simply saying: “Yes, thank you for that estimate, and we will comply”? Up until the last IDA replenishment round, which was the first time where DFID had said: “We want these changes before we are willing to respond to that request”, my answer would have been “Yes”. With that precedent last year it is a positive one that now UK is much more constructively saying: “We are willing to consider that increase but we want a reform agenda. We want something for our money”. That is something we would like to see continue. Having said that, the usual response is we can’t have everyone saying: “This is what we want and we will not give you our money unless we get it”. That is not the nature of a multilateral institution. However, multilateralism is also not about simply complying and handing over money when you get the request; there has to be a balance in the middle. I think this is where European civil society has been working together across countries to try and encourage various donors to work together to put forward a reform agenda for the Bank. Our understanding from those inside the process is that the Bank, in terms of senior management, has been reluctant to bring any new issues into the reform agenda. That has been disappointing for us. So it appears that in this round there is not a sense of getting something for your money—getting something for the increased commitment.

Q9 James Duddridge: Are there any other good examples where countries have used the replenishment round to push a particular agenda effectively? You mentioned the British being proactive, but in relation to other countries are there any good case studies?

Mr Powell: The history of using the IDA lever is dominated by the United States, and I would not want to put that forward as a best practice example, because the US has usually acted unilaterally in that

respect. Where sometimes civil society has been on board and in agreement with that action (for example, with the Pelosi amendment, which brought the need for Environmental Impact Assessments into Bank project lending) civil society groups in both the United States and in many developing countries were quite pleased with that development. However, in terms of a process, that is not the way we would want to go; we would want to see more donors working together as groups, ideally working together with recipient countries to think about a common reform agenda for the Bank.

Q10 Sir Robert Smith: Robert Zoellick has talked about the need to expand the pool of donors to the IDA and, in particular, also, apparently, floated the idea of a couple of private sector companies that might be interested. There was also talk about South Korea, Turkey and Egypt maybe coming along, and other countries that have benefited in the past now becoming donors as well. What do you think the likelihood is of attracting new contributors, whether private sector or from other countries?

Ms Molina: There might be some likelihood of attracting new donors, definitely. There is a concern that we have seen that we would like to ensure, obviously, that decision-making governance and the local objectives of the International Development Association remain within the domain of, firstly, global public goods, development and poverty reduction. Our concern with some actors which have not been traditional in the development aid field would be related to the fact that they might try to change this agenda of looking into poverty reduction and trying to foster pro-development policies. So maybe we see these as an opportunity but an opportunity that we have to be very careful in keeping vigilant that this does not divert from the prior objectives of the International Development Association.

Mr Powell: I would add that I think most civil society groups would be very pleased to see IDA graduates, if you will, become donors to the Bank—expanding the pool of donors in that sense. What we would not want to see is that that takes any pressure off the richer countries to meet their commitments to the 0.7% contribution. On the question of the private actors, I think initially there was some concern; rumours were swirling around the annual meetings that it was some pharmaceutical companies that wanted to give money to IDA, and you can imagine that there were some concerns amongst civil society groups working on health issues about what that might imply in terms of governance. What is clear, as Nuria has expressed, is that there should be no governance rights given to anything other than states, if other actors do want to contribute to the Bank. Finally, a comment on the fact that there is a greater contribution from the IFC (International Finance Corporation) to this IDA replenishment round. While, I suppose, returning some profits to IDA is a positive development we note some contradiction in the fact that the IFC has been active in promoting fossil fuels. That comes at a time when it is giving money to IDA to actually work on the

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climate change adaptation agenda. So, if you will, this is a bit of a sense of continuing to pollute with one hand while you pay to clean up with the other. That is not entirely without some problems.

Mr Hammer: To echo the concern, we have just recently had a very short stab at what governance arrangements are in place to look at, for instance, multi-donor trust funds. What was interesting is that there was always this tension between not involving those who are most affected by the decisions but then very often giving power to a lot of actors whose credibility and legitimacy themselves is very difficult. I am not saying that there would be an intention to use that same model for, for instance, governing IDA funds, if they were coming from private donors in part as well, but I think that the experience just shows that one has to be very, very careful because when we look around and see one or two other examples it is not exactly trust-inspiring how it is working at present, and they are not exactly the best examples around. If private donors were to contribute to IDA then a very public and, clearly, safe way of ensuring the governance of these funds, I think, is a very necessary thing.

Q11 Sir Robert Smith: These are all pledges. What is the record of actually delivering on the pledge when the money is needed? Is it a good track record?

Mr Powell: State pledges to the IDA replenishment?

Q12 Sir Robert Smith: Yes.

Mr Powell: I do not have the numbers to mind but I understand that the record is mixed. I know that Italy, for example, is in the throes of its contribution to IDA 13, I believe, right now. So there are countries who are quite prompt in their payment record (which I think includes the UK), there are members that are slightly delayed but generally do not cause problems for the Bank in terms of predictability, but then there are a number of donors who, I think, have not been large in terms of volume but who have not kept up their end of the bargain, if you will. Maybe Nuria knows more of the detail there.

Ms Molina: I think that is a fair picture.

Q13 Sir Robert Smith: In the main top 10 largest pledges to IDA 14, there is nothing from Norway or the Arab States, who are all extremely oil-rich at the moment. Is there any historical reason for that??

Chairman: Would it bother you if they were to come in?

Ms Molina: Norway, as you know, delivers roughly 1% of their GDP as development aid. Proportionally to their GDP, contributions to the World Bank are large, but obviously we are talking about countries which are smaller than other major donors. These countries are considering increasing donations at the moment, for the current replenishment round with some contingent to further progress, obviously.

Q14 Sir Robert Smith: And the Arab States?

Mr Hammer: We do not do research in that area, so it would be a bit difficult for me to venture into that.

Q15 Chairman: Would it cause you any concern if they came in in a similar way?

Mr Hammer: I have to talk a little bit beyond the One World Trust. I have done some work on human rights before and I think if you have actors that have a difficult track record, for instance, in terms of international human rights accountability, then, of course, their transparency, as well as the legitimacy of how they are coming into power, may have to have an impact on how their contribution is valued in terms of the governance of funds they contribute to the Bank. How that could be formally reflected in a body such as the World Bank is probably something that would need to be looked at, but we do not have a ready-made solution for that.

Q16 Mr Crabb: The evidence submitted to us from DFID states that there is a shared ambition on the part of it and the World Bank in terms of eradicating poverty. Do you, as a panel, perceive any tensions between the heavy focus on poverty eradication on the part of DFID and any aspects of the policy or practice at the World Bank?

Ms Molina: Probably my colleagues on my left are more knowledgeable than I am on the particular details of the DFID policy, but definitely there is divergence between the stated policy by DFID and their White Paper published in 2005, and the policy, for instance, at the Bank in terms of conditionality. So there would be, obviously, a tension and a need to reconcile and to make those more coherent, particularly on the British Government side, if they want to protect the policies that they have shaped and expressed publicly.

Mr Powell: If I can drill down on a particular point here which I think is very relevant, until very recently there was never any research done at an early stage in either a project assessment or a policy loan to determine what the likely poverty impacts of that financing would be. It is quite remarkable, really, that you would not do that kind of research. To DFID's credit, over the last few years, they have funded some of this research which goes by various acronyms, often known as poverty and social impact assessments, at the Bank, and this has started to be pioneered. If you are going to say: "What is this finance going to do to help a country move towards MDG⁹ achievement?" then that kind of research is absolutely critical. What we understand, and I think Oxfam made a submission to this Committee specifically on this point (they have done a recent report), is that after the DFID pilot funding has run out the Bank has not taken this on in a systematic way. This kind of research should be an integral part of the Bank's work, and until it is that does leave a gap between both agencies' stated commitment to poverty reduction as the primary goal of ODA, and the Bank's actual practice in terms of its financing.

Mr Hammer: I do not know whether this is the exact point at which to raise the issue in the best way, but poverty reduction also depends on the credibility of those who will, for instance, address issues of corruption when delivering aid. I think it has been

⁹ Millennium Development Goal

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made a priority by the World Bank, and it is a priority for DFID as well, as far as I understand it. As that is a shared interest, how does the World Bank reflect in its own ways of working the necessary integrity in the way that it governs its own processes? Over the last year we have seen a very problematic process in terms of the senior leadership of the Bank, which has undermined, partly, the credibility of the World Bank to lead on a number of issues which are relevant to poverty reduction. I do not know whether we will be coming back to that, but the anti-corruption agenda is very important, and I think so is the credibility of the institutions which drives it, and here we have seen a certain slump over the last year.

Q17 Hugh Bayley: DFID has put a strong emphasis of priority on reforming the World Bank to increase its focus on the Millennium Development Goals and their implementation. Is that DFID policy delivering results?

Mr Powell: Another one of these very easy questions! I am not an MDG specialist—I should probably say that up front. I understand that, broadly speaking, there is progress being made on virtually all fronts, particularly in Asia and in many countries of Latin America, but that the African picture is much more mixed, with certain countries not making any progress on any of the indicators and, in some cases, some countries going backwards on some of the indicators. Again, perhaps, to pick up on a particular issue, then, if we look at the African context, where obviously things are not working as well as the international community would like to see them working, we have recently seen a lot of renewed attention placed on agriculture. What has become clear from that study is that agriculture, in terms of return for your money invested, has a much more significant impact on poverty reduction than many other types of expenditure. In some senses it is, again, quite remarkable that for nearly two decades the World Bank has essentially withdrawn from agriculture—at one point where its lending portfolio was approximately 15% in agriculture to, I think, where we stand in the low single digits, something like 4%. I think both DFID and the World Bank have made this recognition that we are going to have to see a much more serious commitment to agriculture, and this, hopefully, will give us more impact in terms of MDG achievement, along with the existing work that is going on in terms of essential services, because that is really where the focus has been, but we have not really looked at the other half of the question which is the livelihoods question, which is an agricultural question for Africa.

Ms Molina: Greater focus on the MDGs has been also embodied through, amongst other things, different particular tools, which is, on the one hand, more emphasis on budget support, with greater aid effectiveness and with greater impact on results in poverty reduction and on MDGs. In general, it is a results-based approach that several donors have been really emphasising in the last few years. Initial evaluations say that, first and foremost, it is very

difficult to tell because these are mid-term to long-term processes, and it is too early to tell, but, for instance, just to give you an example, the joint OECD evaluation conducted in 2005 would say that even if we have to be cautious because it is early to tell, there is some initial evidence pointing at the fact that both budget support and the results-based approach have helped achievements on MDGs and poverty reduction-related results. Now, how does the World Bank perform in this area? This is a bit more concerning, let us say, not so much on the side of the budget support, because the World Bank is performing quite well, but more in the results-based approach, and the results-based approach, once again, has suggested other areas, like the ones mentioned before—ownership and assessment of distributional impacts—where we have identified some divergences between DFID policy and the World Bank. This would be, once again, one of these areas where the World Bank has been rather good at rhetoric and expressing publicly that they are focusing more and more on results, but when looking more concretely on what sort of results they are looking at, at a country level, in country assistance strategies, in the joint performance assessment frameworks, we see that still the World Bank is very much focusing on other indicators which are obviously relevant to macro-economic management, such as debt management or fiscal policies. These are very important but the question raised here is: are they actually shifting and living up to their commitments to look at poverty reduction outcomes? This is very much more limited than the other sort of results and outcomes that the World Bank is still looking at.

Q18 Hugh Bayley: I have another easy question. In answer to the Chairman's very first question, Jeff, you said that the Bank tends to perform better, certainly, in regard to lifting people out of poverty with its public sector programmes than its private sector programmes. I am not in the least bit surprised by that because many public sector programmes are intended to be universal in application and the private sector programmes create wealth-creating centres, and the best you can hope for is that wealth will trickle down into the society as a whole. My question is this: I take it as read that the Bank should be investing in the private sector because until you get wealth generated in-country you do not have a sustainable development path, but how that wealth is used and distributed is vitally important. Surely, the primary responsibility for the slicing of the cake, the distribution of wealth, lies with the government of the country and not with an investor, whether it is the World Bank or anybody else. The question, in a sense, is: surely we should not be surprised that there is less of a direct poverty alleviation impact dollar-for-dollar invested in the private sector than the public sector, but that the Bank and other donors should be investing in good governance that raises the question of accountability to the people and the responsibilities for distribution. There were big battles in this country a hundred years ago about how the fruits of

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market capitalism should be spread to prevent poverty—the same throughout Europe and, to a lesser extent, in North America. Is that not where the debate should be, with the governments in developing countries, on distribution, rather than the Bank’s private sector programmes or the private sector itself?

Mr Powell: I would agree with you that the history, of course, is that we went through nearly 20 years of development aid where the very simplistic answer was: get the state out of that equation. Even in the weakest countries where, clearly, the capacity to regulate was not there, we seem to have come around a bit on that pendulum of perspectives in development to now where the state has a role again, in the World Bank’s view, but it still has a fairly minimal role in terms of having the capacity to play that redistributive function. I guess, if the question is about what role the Bank’s private sector arms should be playing relative to the public sector arms, it does look as if one of the major initiatives of the new President will be to better integrate the private sector lending with the public sector action. That, even of itself, is problematic. The questions that organisations such as ourselves, which monitor the IFIs,¹⁰ are interested in, in terms of the private sector lending arms of the Bank, is what is the value added of this money? At its worst, this is simply investing in initiatives that would have got funding anyway, that is crowding out private investment, and much of what we see the IFC doing confirms our suspicion. Some 40% of its portfolio goes to other financial intermediaries; a very large percentage of its funding is going to extractives and to fossil fuels, as I have already mentioned, and which I understand the Committee will be looking into in more depth in a future hearing. We feel that there should be a role in terms of supporting small and medium enterprise development and the framework by which small and medium enterprise development occurs. Some initial research that we are in the midst of right now finds many IFC projects which cannot be said to be doing that: investing in a Coca-Cola bottling plant in India does not, to us, suggest a value added in terms of private sector contribution to poverty reduction. I think there are some real question marks around the role of the IFC, and typically the donors have been less interested in the reform agenda of the private sector lending arms of the Bank than the role of the public sector section.

Q19 Hugh Bayley: Briefly, why can a soft drinks factory not form part of the growth and diversification of the individual economy? I can think of somebody who I met in Ghana who was, literally, lifted off the street and into providing a secure future for his family because he got a job as a truck driver for, I think it was, the Guinness brewery, or a similar sort of business. Why does that not play a part in poverty alleviation?

Mr Powell: It absolutely does; it does play a part. Employment, growth plays an enormous part. The question is, with multilateral bodies with limited

resources, where are those limited resources focused? If the bottling plant—whether it be Guinness or Coca-Cola—is able to raise funds in other ways then our feeling is that they should be raising funds in other ways, and the onus of proof should be that the multilateral agencies are saying: “This is something that would not have happened without us being there”.

Q20 Hugh Bayley: The point is clear.

Mr Hammer: I think there is a slightly different direction I would like to take here. There is the substantive issue: should the World Bank be promoting private sector/public sector programming in that area. Yet, it is also about who in the country itself is actually in charge of setting the policy under which economic development should take place. I think that is where the role of parliaments comes in. Is it a matter for the World Bank to, essentially, roll out programmes, sometimes over and above the head of national parliaments, not engaging with them while they are developing a project or a programme; providing not enough information through the government itself to parliamentarians so that parliamentarians find it hard to hold their own government to account about what policies come from the World Bank and what programmes are being rolled out? For me there is, in addition to the substantive issue (on which we would not have a position at the One World Trust because we recognise the role that private investment takes in the economic development in all countries, usually), therefore the question of who is actually in charge of the policy agenda in a particular national context.

Q21 Hugh Bayley: Would you like the World Bank to have a policy that would require the government of any country in which it has a presence, shall we say once a year, to make a report to the parliament about the uses made of the World Bank’s funds, and to allow there to be debate and questions and so on? Would that help?

Mr Hammer: I think such a policy would be very valuable. It should cover several ways of ensuring that accountability. We would certainly support the idea that senior staff of the World Bank, whether in-country representatives or people who are involved with the programme in, for instance, Washington, can be called by parliaments in any country. In the same way that we are sitting and giving evidence to a Select Committee it should be possible for a national parliament to ask the same of World Bank staff. The other thing that should happen is that the governments in those countries, with support from the World Bank or other international financial institutions, should provide information—not just a big bagful of data but targeted reporting—that empowers parliaments to exercise their oversight function over the policies that the government is negotiating with the World Bank. As we know the power relationships of aid recipient countries with the World Bank are very often skewed. Without access to information we cannot talk about a fair negotiation process.

¹⁰ International financial institutions

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Q22 John Battle: In a sense that is where I want to push this question. You will remember we were in Ethiopia and this was the old argument: World Bank funds make public sector projects. What do we find in Ethiopia but a field full of equipment that had been left to rot for 17 years because the road programme had been cancelled. We were looking at the wastage of public money through the World Bank. I want to push the question another way, because it is interesting about the trickle-down of wealth. I never really believed in the Heineken theory of economics, because I never think it reaches the parts it needs to. So I want to monitor who benefits. I would ask this question: do any of your NGOs monitor, in some financial detail, I would say, where the World Bank gives leverage for grants to private companies to invest in privatisation programmes? It may even be Coca Cola, but I want to know whether employing 200 truck drivers is less than is actually paid in the 1% profit returned to the shareholders out of country (because the wealth is exported out) that has come from the leverage of the grant. Who monitors the private sector investment in projects in detail to make sure that the World Bank's grants to private companies actually benefits people in-country and the wealth is not exported out? Yes, a little bit of trickle down as far as the truck drivers are concerned, but the real money is made elsewhere in the world. All I am asking is (I am not saying whether it is right or wrong—I have a view on that) are we monitoring? Are we capable of monitoring it in detail? Do the World Bank monitor it or do any of your organisations monitor it, so that we have got really strong case studies to put up an argument as to whether this trickle-down works or not?

Ms Molina: Yes, indeed, we probably do need to build our own capacity in monitoring what we call the reverse flows, or the lack of capacity of developing countries to retain resources and wealth that has been created in their countries and that flows out. You will know the figures: roughly, according to different sources, it seems that the wealth flowing out from developing countries can be from four to 10 times bigger than actually the development aid flows going from north to south. Obviously, we are aware that plugging the leaks in developing countries is as important as making north/south flows more effective, and we are building the capacities and trying to get European governments more interested in the need to legislate in the appropriate way so these leaks are plugged, because obviously one of the important details we should take into account is that all this wealth sometimes goes offshore in tax havens that are based geographically in Europe, I have to say.

Q23 Ann McKechin: Following on from that I wonder if I could ask a couple of questions regarding the World Bank good practice principles. One of the principles is reducing the overall number of conditions, and I know, Ms Molina, your written evidence has made specific criticism about this. I wonder if I could put to you that this is rather a false debate; that it really should not be the number of

conditions that are imposed on a grant but whether the conditions are actually effective. We have had quite scathing evidence, for example, about the World Bank investment in the Chad-Cameroon oil pipeline, and one of the criticisms by the International Advisory Group was that the lack of hard data about almost every one of the Ministry's accomplishments made the task of actually finding whether the oil revenues led to economic growth almost impossible. That suggests to me that, perhaps, in some cases, we are not imposing enough conditions on the grants, rather than the fact that we have too many. I wonder if you could comment on that point.

Ms Molina: Basically, the conditions that we are demanding should be phased out, and which we should call for an end to, are economic policy conditions. I believe that in your question you were hinting at conditions that may be referred to as dealing with the process with diligence, transparency and accountability. These sorts of conditions, obviously, need to be in place, but rather than conditions what there should be are the contractual terms of an agreement between two parties; an agreement that should be balanced and where both parties should participate on an equal footing. Obviously, it is the effectiveness of conditions for some European donors, but also they have been identified as ineffective, as it were; it is conditions that are focused on economic policy, economic management and which have been trying to perform sensitive policy reforms, sometimes not taking into account the ownership of national—

Q24 Ann McKechin: I wonder if I could press you just a little bit further, because one of the examples you have given on page 10 of the written evidence is about conditions in Uganda.¹¹ I have read through the list. On the face of it, there does not appear to be many that most people would consider unreasonable. One of them, for example, is that a government department would complete a survey of land right awareness levels of women. What particular criticisms have you of that list?

Ms Molina: We do not have criticisms on the content of the list. There are several different issues that we are concerned about. One would be the number of conditions, which was the first thing that you referred to in your questions. Obviously, sometimes we can perfectly acknowledge, welcome or agree with the content of some of them, as you say, but the number of conditions is burdensome. If the number is too high, and in developing countries which are not ready, it will stretch their administrative capacity and they are just unable to track every six months, every year a huge list of conditions which, sometimes, can go up to more than 100—more than 100 from the World Bank—and then adding the rest of the donors. So, obviously, the number matters. We are not criticising in particular; this was an example that we put forward more on the side of the numbers and how the numbers should be

¹¹ EUROADAD, *Untying the knots: How the World Bank is failing to deliver real change on conditionality*, November 2007

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streamlined. I would agree this is not so much focused on the area that we call due diligence which we believe that, if agreed, equally by both parties, it is very legitimate to be in place. Our main criticism, as you will read in the report, obviously, or as you have already, is on the economic policy conditions.

Q25 Ann McKechin: If I could turn to that now, obviously you called for the principles to be used as a way of reducing economic conditionality. In a letter in this morning's *Guardian* Kyle Peters, the Country Services Director at the World Bank, responding to an NGO campaign here in the UK about conditionality, stated that: "country ownership is a central principal of the Bank's budget support operations. Indeed, while less than a third of our recent budget operations have been sensitive economic reforms, and privatisation constituted only 1.5% of such conditions, where applied, these conditions are based on countries' own reform programmes."¹² I wonder if you might care to comment on that criticism.

Ms Molina: Definitely. There is a clear diversion in numbers, obviously, between the forthcoming progress report of the World Bank and our research. It is not that dramatic but it is mainly due to a difference in the definition of what the World Bank calls economic policy conditions and the definition that we have used, and on what the World Bank calls privatisation and the definitions we have used. We are using a slightly broader definition which does not diverge so much from the Bank's one, and mainly using the definition of sensitive policy reforms as the Bank used it in its first progress report, which does not refer only to privatisation conditions but, also, to what we would call associated reforms, and the Bank also called with a very similar terminology.

Q26 Ann McKechin: Some of the terminology may be a little bit difficult to clarify as to what it exactly means. To give an example, again in your evidence, on page 12, on Vietnam, you say that it has to "adapt policies to encourage the participation of non-state establishments in the delivery of public services"¹³. That could mean, for example, the privatisation of private utilities, which clearly you would be against, or, alternatively, it could mean private companies having to tender for construction contracts in the public sector, which most people would say would not be an unreasonable condition. So it is part of the problem, actually, of how we define what is an economic condition and how we define one related to better governance.

Ms Molina: It is important to make clear that in our definition of privatisation we have not included private sector development. So we have taken into account that there are a number of conditions which are related to strengthening or enabling the business climate and strengthening private sector development, and we have not counted those as

privatisation. This is, to a certain extent, necessary to clarify. When we talk about economic policy conditions we are not so much worried about or concerned or claiming that all privatisations are bad in themselves. They could be bad or good, as much as nationalisations. The problem is when they are conducted in a rushed way when there is not the necessary regulatory framework or the necessary institutions in place. We were saying before: "What is needed for development?" The right legal frameworks, the right institutions, the appropriate competition law—all these elements are needed for these reforms to happen successfully. Past evidence shows that this has not necessarily been the case. On the ownership of these conditions, if the country wants to put forward these reforms then they are legitimate to do it; they are a country elected by their own citizens. But why should the Bank impose the conditions? The country will do it anyway. So the Bank should just not be seen as meddling in decision making which is up to the national institutions and parliaments.

Mr Powell: If I can just add there that I think there is a fundamental divide, where the Bank sees itself as having a supporting role in the reform agenda. Many civil society critics of the Bank say: "Well, that is not your role". How would we see things here in the UK if the Chancellor were to stand up and say: "Well, I am taking this measure and it is backed by this multilateral institution"—whatever multilateral institution that might be? I would imagine that would draw some catcalls from around the Chamber. Would I be wrong?

Q27 Sir Robert Smith: Well, the EU is often called into—

Mr Powell: Does that not draw catcalls around the Chamber? Indeed. So I think there is this fundamental divide, where civil society says that if this is the reform agenda of a government by democratic principles, it should have to win the argument of the day. It should not be able to use, rightly or wrongly, the pressure of an international lender to achieve that reform. If they cannot achieve that reform that means the domestic political economy is not yet prepared for that reform.

Chairman: If you can help us with any specific case studies that would be valuable because we have been round this course before and it is not always that easy. For example, whether it is the British Government or the World Bank, that says: "The Government of X asked us to help them in their agreed policy of privatising X or Y and we are simply advising them on the best way to do it." They may even have said they wanted to realise assets in order to build the infrastructure of their health service. So if you get that response, your argument crumbles. I am not asking you to do it now but if you can give us any written examples that take us from the general to the specific, genuinely we would be very happy because we are interested in pursuing the argument but it has to be more than just intellectual; it has to be real.

¹² "The World Bank and conditionality", *The Guardian*, 20 November 2007, p35

¹³ EURODAD, *Untying the knots: How the World Bank is failing to deliver real change on conditionality*, November 2007

Q28 Sir Robert Smith: What does the Bank do if someone does not meet some of these conditions?

Ms Molina: Technically the response would be withholding funds, yes—pull-back or freeze the money. The reality is that they are not so often doing it; they are extending a number of waivers, which has been eroding their impact. I would just make a note on your request, not so much on particular cases that we would be happy to provide, obviously, but overall, we obviously face the same problem when we discuss with the Bank and they just push for evidence that a given finance minister has agreed or has used Bank leverage to push forward this reform. We work very closely with our sister network in Africa, AFRODAD,¹⁴ and they work very closely with national parliamentarians in that country. We were recently in a meeting with them and it was surprising to see how parliamentarians in these countries were just complaining that they were completely marginalised from the decision-making process, not only in terms of monitoring the money flows from the Bank and from donors but, also, from the decision-making process—being able to participate in long contraction and in budget matters.

Chairman: This Committee, in general, and Mr Bayley, in particular, have been very active in trying to promote the role of parliamentarians in other countries, and we are very much on side for that.

Q29 Richard Burden: Could we go back to the issue of DFID leverage in conditionality reform? I think, Jeff, you mentioned, in your opening remarks, about the decision in 2006 to withhold £50 million from the World Bank. You said that whilst that kind of approach is not the be-all and end-all of trying to secure reform, it was a kind of useful start. This year the £50 million was released on the grounds that progress had been made, and that has attracted some criticism from a number of bodies. My first question is: do you think that the £50 million was released but actually there had not been any progress made? Or do you think that there was progress made but it was not enough? If it was not enough, what do you think they should have insisted on to release the £50 million? Not to completely reform conditionality (that is a much longer project) but, to release the £50 million, what should DFID have asked for on that specific thing that they did not get?

Ms Molina: Yes, definitely, there were some problems made in 2006, and in 2007 we acknowledge that in our report, some difficulties in the number of conditions and, to a certain extent, some problems in some of the five good practice principles—not enough by far. You would expect that two years after an institution has committed to a policy of reform the change and the progress should be noticeable. This is our main concern—we see glacial change. So, basically, I definitely think that the strategy of withholding funds by DFID and the pressure put by other governments, and apparent consideration in different progressive donor governments to maybe follow the same strategy, has

been influential. It has been influential in other progressive governments in Europe and it has definitely put the pressure on the World Bank. I do not know if the question is along the lines of whether it should be used again. It is a successful strategy and it should be potentially considered to be used again. In particular, there is a number of recommendations that should be made in a number of areas, but in a nutshell, obviously, independent monitoring of the World Bank progress on conditionality is something that should be asked, and this would provide objective and independent evidence for governments, such as the British and others, to use as a yardstick to realise where there has been progress, because, obviously, a report or a study that is issued by the same institution is not independent and there may be a conflict of interest. So independent monitoring suggesting, maybe, to set some targets, because the good practice principles have some flaws and these flaws are that they are relatively ambiguous and difficult to measure. So, maybe, setting some targets in terms of the degrees of overall conditionality and the degrees of economic policy conditionality, and, obviously, further engagement of other stakeholders, such as parliament and civil society organisations, both in donor countries and in recipient countries.

Mr Powell: If I can add briefly to that, we understand that where the rubber hits the road, as it were, in terms of the Bank's reform agenda with IDA, is in terms of the matrix of the reforms that are included in the final IDA document. Our understanding in the draft is that there is absolutely no reference to this issue. So, at this stage, barring the use of the financial leverage there does not seem to be any willingness to consider another method of holding the Bank to continued progress to reform on this agenda. So we very much support the work that EURODAD has done in terms of a call for an independent assessment of the good practice principles in an attempt to make them more rigorous, so that we can make an objective assessment of how much progress has been made. I do not think that is possible right now because you are always going to get the kind of arguments that all of you have heard quite a bit of between different understandings of different definitions of the implementation.

Q30 Richard Burden: So what you are saying is that the tactic of withholding or threatening to withhold contributions was not only useful last year but it is one that should be seriously considered as being operated again, and specifically for the issue of independent monitoring to secure that as well?

Mr Powell: Yes.

Q31 Richard Burden: What else do you think DFID could be doing to secure the kind of conditionality reforms to make World Bank policies more development orientated, other than withholding contributions?

Mr Powell: Obviously, there are a number of ways that reform agendas are pushed ahead at the World Bank. One is to make a direct contribution to pay for

¹⁴ African Forum and Network on Debt and Development

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the independent assessment that will be done. That can be done through some kind of trust fund action. Another is to push this agenda at the World Bank Board. Another is for UK staff to work with World Bank staff in terms of trying to convince them of the value of such an assessment. However, all of these are, in the end, quite weak relative to the fact that if the IDA replenishment has been done and money has been handed over then that is the stick, and if you lose the stick the others are just kind of, as far as I am aware, in terms of methods of change, soft.

Q32 Richard Burden: Even if they are soft, are you saying you do not think DFID is doing them? Or are you saying it is doing them but they are not working? Is there something more in those areas of, if you like, soft pressure that you think DFID should actually be doing, or is it doing all that could be expected and it just is not working?

Mr Powell: I am saying DFID is definitely doing all of those things. One recommendation that has been made by, again, our attempt to work together across countries in Europe—the civil society—is for what is broadly called in the Utstein Group “the like-minded donors” to come together to work more often. This was very effective last year with the Norwegian study that was done, which was seen as independent; somewhere between what the civil society groups were saying as critics of the World Bank and what the Bank was saying in terms of its research, which was defending its own position. More effort to work together with donors who prioritise this issue, I think, could be made. We do not see enough effort on that front.

Q33 John Battle: If anything, what disappointed me about the EUROADAD report, in a sense, were the references to privatisation of electricity—we almost have an obsession with it as the only point of critique—and the references to liberalisation of energy markets in Afghanistan, Nicaragua, Vietnam and Rwanda. I think there is a world row going on about liberalisation of energy markets. It has gone on for eight years in Europe; it is going on in the United States. They are not there yet, to say the least, and this argument is going on and on. Privatisation of electricity has become the focal issue and I am disappointed in that because I do not think it is the main issue. I think the World Bank conditions do not liberate the poor, and I would like to ask you whether we can look at the world from the other end of the telescope rather than this top-down privatisation model. What about the alternative models nationally on conditions? Are they only about parliamentarians? I want parliamentarians to be involved but, goodness, there has been talk for 10 years about participatory budgeting. That has been going on since the World Social Forum. Even, dare I say, Liberal and Conservatives and a few Labour councils in Britain are trying to experiment with a little bit of participatory budgeting. Where is the vision of alternative economic models that has been pushed up from the base in the direction of the World Bank? Who is working on them? Where are

those examples which we could perhaps use to amplify the bad examples and set a counterweight to them?

Ms Molina: The answer to this question would go well beyond the scope of conditionality, because, basically, we are talking about the sort of national policies that should be in place to ensure a meaningful poverty reduction and a meaningful developmental model which leads people out of poverty. I certainly doubt that this should come on board during the forum of conditions for disbursement in development lending but it should definitely be developed as alternative national policies which explore into different economic models, as you were saying. There is definitely work being done by a number of multilateral institutions, and a number of CSOs¹⁵ as well, on alternative fiscal policies and alternative monetary policies particularly, because, as you know, this is basically the role of the IMF¹⁶ but this has an impact on the World Bank and World Bank finance and the cross-conditionality between the Bank and the IMF. Action Aid International, for instance, has been exploring into different alternatives in monetary and fiscal policies in order to provide national decision-makers with a wide array of options—not to be ideological but to have a wide array of options—and there are also institutions, such as the UN DESA,¹⁷ which published two months ago a number of what they have called policy notes, ranging from industrial policy to macro-economic policy, social policy, which tried to provide these alternative views on development as well.

Q34 John Battle: I do not understand why conditionality cannot include that governments should be obliged to work with, consult and engage with people, including the poor. Even in Britain, at a very modest level, before council budgets are spent, to some percentage and in some quarters it is now devolved to the local level, and the Health Authority primary care trusts involve users—in a very minimal, very measly kind of way, in my view. Why can that not be part of the World Bank’s vision for conditionality and participation, so that the poor are counted in rather than told what to do from the top all the time? Even on alternative economic models, it is still top down.

Ms Molina: Definitely. We would perfectly agree that with that. That is what we would call due diligence or due process: conditions or terms of the contractual relations between donors and recipients, and that should definitely include participation of civil society and what you would call a bottom-up approach instead of a top-down approach. This is quite different, though, from substantive policymaking. With substantive policymaking, the more decentralised it is done, the better it is, because it takes into account the circumstances and the context of local regional and national levels.

¹⁵ Civil Society Organisations

¹⁶ International Monetary Fund

¹⁷ Department of Social and Economic Affairs

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Mr Hammer: There is a mixture of issues here. One is about who is defining and setting policy; the other one is also about the space that is offered for consultation. Earlier in the discussion we talked, for instance, about developing policies and firm policy commitments from the side of the World Bank on who to engage on certain processes. If there was greater transparency, for instance, when eventually decisions were taken at the executive board level, what the result of the consultations were that were taken into account when making decisions about certain programmes, it would be easier for civil society, including community-based organisations, and other more marginalised groups, to be involved in the development of policies. It is a very, very steep and very, very high pyramid to build and, of course, there has to be a balance struck on the length of a consultation process and the breadth of a consultation process and the decision-making, because otherwise—

Q35 John Battle: I am not just looking for consultation. I am looking, if you are describing it as a pyramid, for the lock-in, the safeguards to be built in from the base and not from the top. Are there any models of nationally owned conditionality that build those kinds of safeguards in? In other words, you have to work with peasant farmers in their collectives in order to sort out the agricultural policy; you have to consult people locally in villages before you put pipelines through; you have to consult people before you decide that their town is going to be a goldmine and you need to clear them out of the way and dig it because you have the money to invest, backed by the World Bank, as is happening now. Why are they not built into the conditionality?

Mr Powell: This enters us into a very broad and, I think, fascinating debate, which really is at the cutting edge of where discussion in civil society is right now. How do we move from conditionality to what is often described as responsible financing standards. How do we move to a situation, modelled after, for example, the UN conventions and norms to which countries are signatories, where, when development financing is involved, there could be norms around participation? That would move us away from the situation we are in right now, which is safeguard policies which are specific to a particular institution and its own rules—which are very confusing, which are Byzantine for groups on the ground—to a situation where there is the global expectation of how this would occur.

Q36 John Battle: Good answer.

Mr Powell: It is a detailed debate, but thank you for questioning it.

Q37 Chairman: Leading from that is the way that the Bank is run as a corporate entity. Essentially, it is run on traditional corporate lines. It is a shareholder-driven organisation—apart from having one minority shareholder who has a golden share in having the right to nominate the President. There has been a lot of discussion about how you could change that in ways that would effectively give

the recipient countries more say. Given that is the concept, that it is a shareholder organisation, how would you change it in ways that were compatible with that—because, let us be realistic, the donors are hardly like to tear that up—but which gave real influence to developing countries, given that also there are a lot of them?

Mr Hammer: In order to be able to make progress on the reform of governance of international financial institutions, it is important to set oneself realistic goals. Whilst some may argue that, overall, there is something fundamentally wrong with the way in which decisions are being taken and the power relationships, for instance, at the executive board level are very difficult—which is something which we agree with—from our view it would be unrealistic to ask people who currently hold a lot of power simply to give it away—one should nudge and urge them but I think to ask for a complete change is unrealistic—and so one of the ways we have tried to explore, together with the Bretton Woods Project, is to find a way how, all stakeholders and all shareholders in the Bank, essentially, have the possibility to contribute to the decision-making process. In addition to the existing quota based vote we propose, under a Double Majority voting system to introduce a second set of voting, on a “one member, one vote” basis, so that, on decisions that affect them, a majority has to be obtained also in that second set of majority. This should be valid for all decisions rather than just a few critical ones. When we looked at comparable examples where double majority systems are being used, these appear as perfectly feasible. They exercise a much stronger pressure towards consensus building and that is what we feel is needed for the World Bank, so that the decisions that it takes at the very high level are supported not just by the majority of people who hold the greatest number of voting shares because of the quota that they have but also by the greatest number of individual countries that are affected by those decisions. Particularly, those are, of course, developing nations which very often do not have any great part in the voting otherwise. That is one way we have been looking at these issues. The other way is about how one can hold those who eventually take the decisions at the executive level to account and what can be done about transparency there. One of the things we are looking at of good practice principle is to disclose the transcripts of the board meetings very, very soon after the decisions are made—and we are looking at transcripts rather than just minutes—so that it is possible for an individual stakeholder in any country to see: “What has my representative voted on and in which direction?” which is currently very difficult to ascertain. The United Kingdom is doing that, but we all know that the last report on the activities of the World Bank is now one and a half years old, and so, once you get the information, it is at least recent history. In order to make accountability proactive and an ongoing process, it is useful to think about coupling new ways of making decisions at the board level; for instance, through introducing a double majority voting system with greater transparency about how the voting is going.

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Q38 Chairman: You have mentioned comparable examples. Could you give us an indication of what they are?

Mr Hammer: The double majority voting system is used quite a lot, for instance, in managing corporate and employment relationships in a number of countries in Europe. We all know that some countries like to go on strike more than others but, overall, it seems to be driving consensus in a much more positive way.

Mr Powell: To add to what Michael has already raised, we think the staffing issue is still a very important issue. The African executive directors have raised the point that there is not an African managing director. The high level, senior management staff from Africa is lacking, so there needs to be a greater push. DFID have been supportive of that push. More movement is needed. Advisors and research and analytical staff in the executive directors' offices are also important. Finally—another piece of the puzzle that I have been involved with for the last year on the IMF side—we have an absence of evaluation of performance at the presidential and at the board level of both the World Bank and the IMF. That is quite significant when you are thinking of the norms for international cooperation, the norms for international government, intergovernmental organisations that are evolving, so that that kind of evaluation is an important piece of the puzzle. Lest we get completely caught up at the Washington level, I do think the governance model is also a question of how Washington relates to the country level. Here we not only get into questions of constituency reform—African executive directors having to try to represent 24 countries, which is a virtually impossible task—but also then how those representatives are able or not able to do what Michael referred to earlier, which is to be able to respond to the parliaments in those countries about what kind of position they are taking. These are all related to each other and the reform agenda has to move forward both in Washington and in terms of how Washington relates to country representatives at the Bank.

Q39 Chairman: Are there any negatives to this? If you mishandle it, you finish up with too many people involved in the decision-making process and paralysis or confrontation. You have to balance that out.

Mr Powell: This is more on the IMF side than the Bank but the spirit of consensus, if you will, has been leaching away from these institutions in any case. We cannot divide this discussion of governance reform from the reality of the very hot debate over the legitimacy of these institutions that they face today. We have middle-income countries which, in many cases, are trying to set up their own regional lending institutions, and low-income countries which are quite unhappy with the conditions of the financing that they are receiving. Countries are looking at other options, so we cannot say that the status quo is quite happy and working well. Some of these reform suggestions, such as double majority, are exactly to try to address those issues and see if we

can return to more of a consensus kind of model, where different groups with different interests are better able to work with each other and strike a compromise. In the past, the industrialised developing countries dictated the agenda and the others fell into step, and that is simply no longer acceptable in the environment that we are in at present.

Q40 Sir Robert Smith: Are there any resources available to developing countries to give them the skills and practical experience of being able to take part in the decision-making process? Obviously the right to take part is one thing. With the WTO¹⁸ there are trusts and so on to try to enable the voice of the developing countries. Is there any equivalent support from the World Bank?

Mr Powell: The one specific funding—and Mr Bayley and some others will be aware of this—is the analytical trust fund that DFID has established to try to build the capacity of the African executive directors' offices to better be able to commission research to inform their positions in debate at the Bank board. I have not seen an evaluation of how well that has worked or not worked, so I cannot say whether that has been an effective strategy. There has been movement to try to get funding for additional advisers, extra bodies in the room for these same offices. As I understand it, that is stalled over what some might consider to be a tight wallet but other countries have said there are issues around what they can and cannot approve in terms of budget allocations to support such an initiative. Those are the only two of which I am specifically aware.

Q41 Sir Robert Smith: You mentioned earlier about transparency. The Bank has a presumption of disclosure, but what is its practical delivery like?

Mr Hammer: As you say, the starting point is right, to have a presumption of disclosure. I think we continue to be worried that there is no narrowly defined set of exclusions. For instance, the condition that somebody would set in saying, "These documents or these decision-making processes, the minutes of these meetings, are part of a deliberative process that we do not want to disturb and therefore we will not make them public" from our point of view is not a narrow condition, and so, in practical terms, we would ask for a policy which is stricter and which says, "We will make public literally everything, but there are a number of very narrow points where we will withhold information; for instance, to protect staff confidentiality if that is needed on certain issues. But, for instance, which decisions are taken, which documents are being put into the consultation process, should be made public." And that is where the World Bank has a relatively weak record.

Mr Powell: The Global Transparency Initiative (GTI) is an international coalition of NGOs that combines both freedom of information advocates at a national level with the organisations such as my

¹⁸ World Trade Organization

own monitoring the IFIs. It put out a report *Behind Closed BCDoors* last year which looked specifically at this question. It did systematic testing of 30 documents, governance, programming and policy documents, and in five different countries put requests in for that same document and got a wonderful array of different responses, from no response, to “Thanks very much, we are not giving it to you,” to “Here you go.” We see that, though the presumption of disclosure is on paper, in practice there still are enormous gaps. One year ago there was a report by the GTI looking specifically, document by document, at the Bank’s practice. I cannot summarise that neatly today but that is also available from the GTI.

Q42 Sir Robert Smith: There is a concern that if you had unlimited transparency then the directors’ meetings would become much more formal because people would know what was going to be put out in the public domain and they would, therefore, in the margins or the corridors, sort out the positions and deals which would be completely off the record and unaccountable. Is there any concern that too much transparency could lead to that?

Mr Hammer: I think we realise the tension. In the context of a global organisation that is made up of representatives of governments who are themselves accountable to their own constituencies, I think one has to come from an assumption of maximum transparency. We have seen in the case of the World Trade Organisation, for instance, that these informal spaces sometimes exist very openly. There is, of course, a negative impact in the sense that those are like kind of opaque boxes, you cannot really look inside what is happening there, but I think the trend that one would set in motion by asking for more transparency, particularly about positions taken at the final decision making, will force also a greater attention to all these other informal negotiation processes. Initially, such pressure may very well shift some of those discussions into the corridors or into the green rooms or whatever you would call them but, at the same time, it would focus civil society attention, and it may also focus parliamentary attention, on what is going on in those corridors and, progressively, those areas will become more and more narrow. So I think there is no panacea, no solution for achieving the thing right now, immediately, but I think it is important to push and to force those who are officially representing large constituencies/nations/citizens like us to be accountable for what they say, and, in that way, progressively, the room becomes smaller in which they can do these deals and those rooms, those spaces, will then come under more scrutiny.

Mr Powell: In discussions with colleagues in developing countries, this one becomes quite clear for me if you put it in a practical case. If I am a representative of Rwandan small farmers and I want to know how the African executive director for my region has made the argument at the board regarding a sectoral loan that involves, for example, the reform of the Agricultural Marketing Board, which do I prefer: do I prefer that I can see the

argument he made but understand that there may have been some backroom deals or do I prefer the current situation where I have no idea? Neither is perfect but I know which one I want.

Q43 Jim Sheridan: You may have already answered this question but could I push you a wee bit more on good governance and transparency and specifically about the selection of the President of the Bank. As I understand it, all stakeholders can put in candidates for presidency of the Bank but there seems to be some cosy arrangement or agreement that America holds the major influence and gets that position. They say they want good governance, in the sense that we want to hold people accountable and they want to set benchmarks for people so they can evaluate how they are going on. The British Government is also saying it wants better transparency and fairness in the selection of the President. What advice would you give to the British Government in how best we could achieve that?

Mr Hammer: I think it would be beneficial for the British Government to state publicly that the agreement that the United States gets to appoint the President of the World Bank and the Europeans get to appoint the Managing Director of the IMF should simply end. I think it would be a very important signal to state that that is not an agreement that stands the test of time today. I think it would further be very useful to move toward concrete propositions of how a leadership selection process could be established. The fact that now there are two new people in those positions, maybe opens the possibility for a couple of years of time to think through the options and reach an agreement. In my view it is a very good moment to start now rather than to start three or four months ahead of the next time that the need for senior appointments arises, when everybody is rushing and the chance for reform gets much harder. I think it is important to send a very clear signal now that this type of agreement is just not fit for our times.

Mr Powell: As many people in this Committee know I have been pushing this rock up a hill for many, many years now. Certainly the British Government has, in principle, taken a clear stand on this issue and I think has put admirable pressure on by withholding support for both candidates at the IFIs for probably as long as was sustainable under the realities of international diplomatic pressure. I could be wrong on that count. I am optimistic that there will be progress on this issue now, but, if we do not see progress in the timeframe where we are likely to have to replace the current set of heads of these institutions, I think it would be quite useful for the British Parliament, for example, to tie the hands of the UK executive director to say that this issue is at a crisis point: the UK executive director cannot vote to support an American candidate for head of the World Bank or a European candidate for head of the IMF in this round—and this is not to suggest that for eternity this could not happen. At some point the *real politik* of international diplomatic pressure has to be taken away if the international community is in agreement that we are not making progress on the

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issue that everyone knows we have to make progress on. That is about the best that we can come up with. I would be interested to chat with all of you more on how we might better put pressure on this government and others of how to make that change.

Q44 Jim Sheridan: Would it be best for the UK Government to make this statement unilaterally or would it be best done in conjunction with perhaps some of our allies in Europe?

Mr Powell: Ideally, it would be with as many of the Europeans as possible; ideally it would involve the Americans as well—some kind of grand bargain. If that is unlikely, then sometimes a unilateral statement of principle is a useful one.

Q45 Jim Sheridan: This is probably an obvious question, but what does the US have to fear?

Mr Powell: I would guess that the particular administration today fears that European attitudes towards development are different from their own and they do not want to see European dominance of this institution. I do not think that is a realistic fear, but that seems to be the game that is played.

Q46 Chairman: When the Bretton Woods institutions were established, clearly Europe was in tatters and America was in a strong position, but, looking at the shareholdings now, it is a very odd organisation that gives a minority shareholder the absolute right to nominate the boss. Is there not a legitimate argument that says the whole balance of contributions has changed? I agree with you, a grand bargain would be a better way of doing it rather than a confrontation, but do you get any sense that the United States either now or in any changing situation would be open to understanding that that would be a gesture not just to the other shareholders but to the developing world that this organisation was changing?

Mr Powell: I think it would be very difficult for a future American administration not to accept those arguments, particularly if we view, that while Europe does not have clean hands on the nomination of the Managing Director of the IMF, at least there have been candidates put forward from other regions and interviews held where the qualifications of those candidates were evaluated against the priorities for the institution. For a future American administration not to do that, to repeat the exercise we have seen with both the nomination of Mr Wolfowitz and Mr Zoellick, is difficult to imagine as sustainable. However, I have been proved wrong on this point several times in the past.

Q47 Hugh Bayley: Do you think the economic freedom of developing countries would be greater or less if you had an American head of the Fund and a European head of the Bank? Would it change things for the better if you were the government of Tanzania or Mozambique?

Mr Powell: I think it really does depend which country you are talking about. For the low-income countries, particularly Africa, the World Bank is the much more important institution in terms of your

policy agenda and in terms of your development financing. If you are a middle-income country, then the IMF is the much more relevant institution in terms of how the IMF responds to any crisis situations or what pressure it is putting on your country in terms of its surveillance function. So I would imagine you would get a very uneven answer to that question depending on who you asked. Ideally, I would have to say that just swapping them is not going to improve anything: we need to be able to draw on the experience of ministers from developing countries who have lived through and created policy through developing situations more recently. Let us bring that expertise into these institutions. Let us not look at it as a defensive exercise but one where we try to improve these institutions by drawing on a vast pool of experience and knowledge in the relevant countries.

Chairman: Thank you. I am sure that will feature in our report.

Q48 Ann McKechnin: Following on the World Bank's experience recently and the resignation of Mr Wolfowitz, I wonder if you would comment on the credibility of the Bank currently in terms of governance in the donee countries. It is not just whether the morale of the staff has affected the Bank's ability to do its job, because there have been different reports about widespread discontent, but whether or not you think Mr Zoellick has managed to calm the waters.

Mr Hammer: I cannot comment on Mr Zoellick's performance. Before the changeover happened, obviously things reached a certain boiling point within the Bank, and the Bank staff were not only concerned about how things worked internally but they also saw their work going down the drain, in the sense that most people who work at the Bank have a commitment to development, to equitable development and justice in the world, and these people have, in a way, the right to see a leadership in place that is promoting their work and making it effective rather than undermining it through the practices. That is where, earlier this year, the situation reached a certain boiling point and that is why it is very important for whoever—on the basis of merit, independent of what country the person is coming from—is in the leadership position, is playing that supporting role. My understanding is that Mr Zoellick has managed to bring the World Bank to a certain degree out of the headlines. There is probably then a management issue—but some people may consider that to be beneficial because it allows people to rebuild the credibility of the role—but it is very important that some headline policies, like, for instance, the anti-corruption strategy, are being followed through at the highest level, and that commitment to these is really visible.

Mr Powell: I think we are in the honeymoon period right now. Nothing was done to violate the honeymoon period. Staff appointments were made which made sense in the view of most of the Bank staff. There is a feeling that the new President is listening to staff. I think that did enough to calm the waters, to use your phrase. On the governance and

anti-corruption plan, I think it is still too early to tell. Obviously there was a dispute between much of the board and President Wolfowitz on the direction of that plan, which wound up with, ultimately, the board taking more control and a plan that was seen as improved by most of the civil society groups who work on these issues, to broadly describe it. But the key, of course, will be in the implementation of that plan and I do not think the groups that I work with which focus on these issues feel that it has yet been clarified, certainly at a high level, how the Bank will transparently evaluate whether or not the corruption levels are such in a country that they present a threat to the Bank, what that will mean in terms of changing modalities of lending, or when, and if, ultimately, the tap is turned off. Those questions are all still hanging there, with everyone waiting to see how they are dealt with.

Q49 Ann McKechin: One of the senior Vice-Presidents who has been appointed was a former minister in Nigeria. I wonder whether that appointment, given the points you made earlier about the need to try to seek experience from developing countries, could assist in terms of building up confidence in developing nations about the Bank's intentions.

Mr Powell: I think it has. From the traffic I have seen of the African media on this issue, they are quite proud to have their former minister at the Bank. There are always critics. There are many civil society groups who see her as part of a very similar economic viewpoint as the Bank staff which they have problems with. So it is not unproblematic but, in the large, I think it was a positive development.

Q50 Hugh Bayley: DFID's relationship with the Bank is not just one of funder; is it often, in the field, one of being a partner. DFID sees its relationship with the World Bank country offices as a very important relationship. Sometimes there are big projects which both institutions fund. Is that a good way of influencing Bank policy on the ground, for them to be encouraged to work in partnership with other donors? Do you have examples of good local policies that have been developed in dialogue between Bank country offices and some donor communities, perhaps around budget support or around other things?

Ms Molina: At the country level the World Bank keeps on being the leading agency. I do believe at the moment we must have bilateral donors, if not including some of the multilaterals, just to return to the Bank to identify good practices and to give the space for the World Bank to be a team member in processes which obviously under the Paris Declaration on Aid Effectiveness are more and more important. For instance, within joint donor budget support bsgroups the Bank has an important role. This is obviously a trend which also concerns us because the lack of progress of the Bank in some of the targets of the Paris Agenda such as harmonisation, such as ownership, might spill over into the donors that are joining into the Bank to look at good example or as a leading partner at the

country level. This is to a lesser extent an issue of concern for those countries which have a strong, expressed development policy, such as the UK, but it is a greater threat for other donors which have a lower profile in terms of development policy.

Q51 Chairman: You have mentioned the role of the World Bank and the IMF as a partnership. Periodically we get lobbied by the IMF, who say, "We are part of the development process too and we see ourselves as assisting organisations working together." But, as you, Jeff Powell said, the relationship between different countries and the Fund and the Bank are different according to where they are at. In addition to that, fundamentally the IMF has to provide a clean bill of health for a country which is receiving development assistance, yet DFID ministers and DFID staff will often say to us, "Our objective is to try to get development aid and assistance to poor people" almost regardless of the quality of government—not governance but government—in their country; in other words, if they can find a mechanism to get it through, they will. But if the IMF says, "This country is *persona non grata*," then the Bank has to suspend its activities in this country. What do you think the Bank should do in that situation but, more to the point, what can DFID do when they are faced with that situation? How do you think they should deal with it?

Mr Powell: The difficulty is, of course, that in the arrangements between the Bank and the Fund the Bank is obliged to do so. In an ideal world, we would like to see that decision-making process broken, where the Bank had more flexibility to consider whether or not to take the IMF signal or at least to consider different modalities to deliver its assistance. If that were the case, you can think of some kind of postponement period, et cetera. There are different ways it could be examined. Certainly we are appreciative of the fact that DFID has stated it will not, as from on high, take the signal from the IMF in terms of the macro-economic health, whether or not a country is "on track". But, as you say, that only covers their bilateral assistance and their major contribution by IDA to the multilateral channel is effectively cut off. I think this is where the role for development oversight of the IMF is to some extent falling through the cracks a little bit. There could be pressure put on working across DFID and the Treasury to change the view of the IMF, to change the role of the IMF in, particularly, low-income countries. This is where we feel that the IMF's understanding of the growth dynamic in a low-income country has shown itself not to be appropriate for the realities that are needed, the flexibility that is needed, the emphasis on fiscal policy space to allow a dynamic growth path to be attained in the IMF. There was the Malan report recently, looking at the collaboration between the Bank and the Fund.¹⁹ It made some very useful suggestions which reinforced this call that we have made to look again at whether or not the Fund

¹⁹ Report of the External Review Committee on Bank-Fund Collaboration, February 2007

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signalling role in low-income countries is effective or not, whether or not the Fund lending role is appropriate, whether or not the Fund's short-term, fairly expensive lending is in fact an appropriate development finance method. But, despite that call from the Malana report and many civil society groups, the response to the Malana report from management was effectively, "Well, we will set up a web portal so that Bank and Fund staff can better share information"—full stop, so we are not satisfied with the response to that report in terms of collaboration.

Q52 Chairman: That has partly answered the next question as to the benefits or otherwise of removing the link. From what you have said, you think that the link should effectively be broken.

Mr Powell: Yes.

Q53 Chairman: The Committee is going to Washington next week and spending time with the Bank. Rounding off, and just briefly, if there were one question we should ask or one statement we should give to Mr Zoellick, what would you like it to be? We are meeting the IMF too, but let us just concern ourselves with the World Bank.

Ms Molina: Definitely on conditionality of policy. Executive directors plus Fund management—and that includes President Zoellick—should agree to set up independent monitoring, an explicit directive, so that in a year's time from now there is objective yardsticks to measure whether the World Bank has actually focused on conditionality.

Mr Hammer: I think the request would be for Mr Zoellick to set out policy for the involvement of parliaments in a very clear way and which is very separate from the promotion of projects that the World Bank may want to implement in a particular country, separating that from the strengthening of capacity for parliamentary oversight. To set out a policy and set out a plan for implementation over the next few years so that we can see how dedicated the Bank really is to strengthening the capacity for a lot of stakeholders to come into the process.

Q54 Chairman: Do you think they should change the constitution on that? Because that is a slight inhibition.

Mr Hammer: I would have to look at the Articles of Agreement. My feeling is that the argument that some form of statutory or constitutional change will be necessary is very often more defensive than necessary. I think there is policy change possible within what is there.

Q55 Chairman: They have done things which were unconstitutional anyway. Mr Powell, your final comment.

Mr Powell: The one issue to me which captures a lot of what we have discussed today is: will President Zoellick ensure that impact assessment becomes an integral part of what the Bank does? I think that is important for us because it addresses a lot of the concerns that there is pressure on social and environmental safeguards, to roll those back, which can mean damage to the most marginalised communities affected by Bank projects. It addresses the distributional questions that were raised: area we really adding value in terms of how we are reducing poverty in these countries that we are going to? Finally, to me, is the key link with the MDG question: Are we really using development finance to help us reach these internationally agreed goals or are we simply putting things somewhat blind into various projects and proposals which come from our country staff? If not, how can you justify not doing such impact assessments?

Chairman: Thank you, all three of you, very much indeed. I think you will appreciate that we have a common goal really, which is that we accept the World Bank is an institution for development. Our objective is to try to make it deliver and be effective. I think you have helped us to do that. The purpose of this inquiry—because we have been to the World Bank and we comment on the World Bank Annual Report on a regular basis—is to spend a little bit more time and go into a little bit more depth to see whether or not we can usefully increase the influence the British Government has, frankly, in the World Bank, given that we are an increasingly important contributor. That is justifying a tiny bit of what we are doing. Your evidence has helped us. If you have any further specific information which you think might illustrate or amplify what you have said to us along the lines we have discussed, that will be additionally helpful and we will certainly be made use of when we are preparing our report. Thank you very much indeed for coming in.

Thursday 13 December 2007

Members present

Malcolm Bruce, in the Chair

John Battle
Hugh Bayley
Ann McKechin

Jim Sheridan
Mr Marsha Singh
Sir Robert Smith

Witnesses: **Mr Simon Counsell**, Director, Rainforest Foundation UK, **Ms Lies Craeynest**, WWF-UK and **Mr Andrew Pendleton**, Christian Aid, gave evidence.

Chairman: Good afternoon and welcome to this session. Just before we start there are two Members of the Committee who would like to record an interest. First, Robert Smith and then, Hugh Bayley.

Sir Robert Smith: I should like to remind the Committee of my entry in the Register of Member's Interests as a shareholder in RTZ and Shell.

Hugh Bayley: I would like to declare that I am a member of the Executive Board of the Parliamentary Network of the World Bank.

Q56 Chairman: Thank you for those formal declarations. Thank you for coming in and helping us with this inquiry. As you know, we are looking into the partnership between DFID and the World Bank, given that the UK is becoming a major contributor. It already is, but is becoming proportionately an even bigger contributor. We are particularly interested in how this can interact with DFID's declared policies on climate change and the environment, which is obviously what we are going to discuss. Before I ask you any questions, perhaps just for the record you could introduce yourselves so that we have it on record.

Mr Pendleton: My name is Andrew Pendleton. I work on climate change policy at Christian Aid.

Ms Craeynest: My name is Lies Craeynest. I am International Development Policy Adviser at WWF-UK.

Mr Counsell: My name is Simon Counsell. I am the Executive Director of the Rainforest Foundation UK.

Q57 Chairman: Thank you. The real question to all of you, just to start the discussion, is to what extent you think that DFID's policies on climate change and those of the World Bank connect? Some of our evidence from NGOs¹ is suggesting that UK support for the World Bank is undermining its own efforts to reduce greenhouse gas emissions. Is that a view you share? How well do you think these things connect and if you do not think they connect, what are the main disconnects?

Ms Craeynest: DFID recognises climate change as being a key challenge in its poverty reduction mandate and it has started a number of actions and activities on climate change, included in the White Paper in 2006. It has just organised a new team inside DFID on climate change. It has launched the Environmental Transformation Fund for a number

of activities which we all welcome very much to start tackling this enormous challenge. At the same time, it continues funding climate change and related activities through the World Bank which are highly damaging because the World Bank continues to fund fossil fuels despite the recommendations of the Extractive Industries Review, which recommended that all oil funding should be phased out by 2008. Despite that, the World Bank has doubled its funding from \$325 million in 2003, to \$628 million in 2007, and that includes a peak in 2006 of over \$1 billion going straight to fossil fuel sectors. As part of the overall energy portfolio, we do not see a change in the picture and generally oil, gas and coal has remained at around 17–22% of overall investments since the beginning of 2000; general power sectors investments amount to around 55%—that has not changed much. Generally, this is transmission generation and distribution based on existing fossil fuels. So that leaves only around 12–17% that goes directly to new renewables and energy efficiency, and that picture has not changed. We do not feel that the World Bank has taken any account at all with regards to the recognition globally now that we need to do something on climate change, because there has been no major shift at all. Later, I will go into more detail in terms of how new classifications have been used.

Mr Pendleton: We face a triple crisis. There are still, as I know the Committee will be aware, large numbers of extremely poor people in the world. That is the first part of the triple crisis. The second part is that they are the first recipients of the impact of climate change, so it is in their interests to see strong policies to deal with the mitigation of climate change as well as to help support their adaptation. But the third part of the crisis is the threat to their development in the solutions to climate change and I guess that is what is at the heart of what is being thrashed out in Bali at the moment. It is really important that we stay focused on the first one, first and foremost, particularly from Christian Aid's point of view, and clearly the impact of climate change is something we are going to have to deal with. The mitigation side is where I suppose more positively we, as an organisation working with some of the poorest communities in the world, see a win-win because if there were greater amounts of funding, both from DFID as a donor and from DFID as a donor through the World Bank, and from the World Bank, on renewable energies which could be delivered more or less now to many of the

¹ Non-governmental organisation

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poorest communities in the world to help alleviate energy poverty—some 1.6 billion of the world's poorest people do not have any access to electricity for instance—then you could see that those people could receive a major fillip to their development, at the same time as managing the growth of greenhouse gases in the atmosphere. Just to give you a couple of quick examples. Fortuitously, this morning I had a meeting with the Ashden Awards for Sustainable Energy, which I think in the past decade or so have built a considerable name in this area. My main question to them was, can you do smaller-scale renewable energy projects of the kind that would benefit poor people in the short term at scale? And their answer is, yes. They quoted me two examples: one from Nepal, where a bio-gas project which they helped to start some 10 years ago is now meeting the cooking gas needs principally of about a million people—about 150,000 or so households. And also funded through the Grameen Bank system in Bangladesh, a solar energy system for a lighting project, which has met the needs of about 120,000 households—again, probably about a million or so beneficiaries. So the answer to the other half, if you like, of the question that Lies poses, which we would fully support at Christian Aid, is that the time has come to remove international development assistance money from fossil fuel funding. The other half of that is, what would you do with it? Well, it seems to us at Christian Aid that there are plenty of opportunities where there are co-benefits, where you can see that you could benefit poor people directly, improving their lives but also livelihood opportunities, starting in the places where they are, rather than a long way above them, and also at the same time, manage the growth of greenhouse gas emissions.

Mr Counsell: Concerning the destruction of tropical forests which, if we refer back to Nicholas Stern's report, represents something like 20%—it could be as much as 25%—of all global greenhouse gas emissions.² This is an area where, within its fairly limited resources, DFID has been able to adopt fairly progressive projects and programmes and policies, which recognise that there are win-win situations to be made through strengthening the livelihoods of poor people living in tropical forest areas, and also bringing about environmental protection to reduce deforestation. We should remember that as well as that rather large contribution to global climate change, tropical forests also play an important part in the livelihoods of an estimated 80% of the world's poorest one billion people. We see that there is quite a large disparity between what DFID is trying to achieve and what the World Bank seems to be achieving in practice. You will have seen throughout our memorandum of written evidence that there have been recent examples, particularly in the Democratic Republic of Congo, but also others, where either inadvertently or through mismanagement, through poor design, the World Bank has actually risked promoting tropical deforestation on a significant

scale and through that potentially promoting increased contributions of greenhouse gases to the atmosphere.

Q58 Chairman: I think we might want to probe those things a little bit further when I call on my other colleagues. Just before I do, given what you have said the shortcomings are, the question should be put the other way round. The Prime Minister says he wants the World Bank to become the environment bank. Do you think that is an achievable outcome and given what you said as criticism of the Bank and without repeating the argument about the mix of fuels, what else do you think the Bank could do genuinely to address these environmental issues and become an environment bank?

Ms Craeynest: One issue that I would like to raise from WWF's point of view is that we welcome very much that the World Bank finally recognises that the environment underlies poverty reduction and that you cannot approach both issues separately. Environment is interlinked with poverty reduction and vice versa. You cannot tackle only the environment without looking at the fact that many poor people depend on the environment and a great extent of their livelihoods too. So we welcome that. On the other hand, it has been part of the new President of the World Bank's vision to set out a new vision for the Bank to be the provider of global public goods. There is much redefining going on in the Bank and that includes issues around trade, international finance institutions, and communicable diseases. These are the kinds of global goods that the World Bank wants to focus on, and that includes global environmental goods. While we welcome that on the one hand the importance has increased, we are concerned that agreed international institutions, such as conventional biodiversity and UN mechanisms to deal with environmental challenges could perhaps be sidelined if the Bank is stronger on the environment, and where new functions are being appropriated by the Bank itself. While we welcome this, at the same time we would urge DFID to make sure that by doing this we do not undermine the international infrastructure being set up through UN systems, in UN treaties and conventions, which looks at the environment.

Mr Pendleton: I think from Christian Aid's point of view, we would say that it is encouraging to see that through the Clean Energy Investment Framework, for instance, the World Bank is acknowledging the importance of both protecting the poorest communities and protecting the environments on which they are very much more dependent than you and I, at least in immediate terms. So I think that is an encouraging development. As to whether there is a wider and more enhanced role for the Bank in being a broker of environmental goods, there are a couple of things that Christian Aid would like to say about that. The first is that there are other policies that the World Bank is a supporter of that we have looked at and analysed; it is the economic conditionalities that the World Bank continues to settle on its policies. Particularly in the field of

² Cabinet Office, *Stern Review on the Economics of Climate Change*, October 2006

energy policy, the pursuit of the private sector delivery model, which we have seen and Christian Aid produced a report about recently, as a way to try and broaden out the delivery of energy services. Often, as we have also seen and two recent case studies in our recent reports from Nicaragua and Nigeria suggest, that does not very often happen because in the areas where people are poorest and most energy poor, there is not very much money to be made, at least in the short-term, and therefore it is not somewhere that particularly the international private sector finds that it wants to go. So, I think there is an overall policy framework that would also need to be addressed within the Bank which we would have concerns about.

Q59 Chairman: Is it not important to distinguish between the different components of the Bank, because the Bank is a bank and there are aspects of it which are commercially driven and therefore you would expect them to behave like a bank. Then there is IDA,³ which is very much about targeting the poor. It is important in your analysis that you distinguish between which bits of the Bank you are talking about and perhaps to some extent whether you think the IDA money could be more effectively spent.

Mr Pendleton: You very often find that IDA money is spent alongside money that is loaned through the IFC,⁴ for instance, so it is not necessarily possible. Plus, the overall policy analysis of the Bank is increasingly important, for instance, in Nigeria where the IMF⁵ is largely no longer important and not a loan maker. The Bank's policy advice is really quite critical in decision-making and so I think there is a broader focus on the Bank and its policies which have a spill-over into all areas of its funding. The third point I wanted to make very quickly, which again goes back to what is happening in Bali at the moment and beyond, and beyond 2012, is looking at how finance related to carbon dioxide emissions is likely to come. Whatever the chosen mechanisms they are likely to be related to the UN process and they are likely to be related to volumes of carbon dioxide emissions, they might be tradeable credits, they might be taxation based, they might be a combination of the two. Either way, these are not financial flows that will be the Bank's in the same way that money put through the Bank by DFID from UK taxpayers is the Bank's money. There is a real question-mark over the role of the Bank in brokering carbon, particularly related environmental goods, because developing countries are going to want a much bigger say in the spending of money which is essentially theirs because it is going to be coming out of the sale of their atmospheric space. There is a major challenge in that for the Bank, in that it perhaps will not have quite the amount of say—or its main shareholders will not perhaps have quite the amount of say—in the spending of what are, potentially, incredibly large amounts of carbon finance, as has been the case with

Overseas Development Assistance money. A good example of that is the decision that has been taken this week in Bali over the Adaptation Fund for which the Bank will be a trustee, and the Global Environment Facility will be the provider of the administrative services, but it will be answerable to a board of 16, directly answerable to the COP/MOP⁶ under the UNFCCC⁷. So already you see the trend for carbon finance to use the Bank as a financial mechanism, but no more.

Mr Counsell: I could probably add to that and again, specifically in the area of forests, which is perhaps an area which the Bank might have some comparative advantage, given that it is principally in the tropics and the tropical countries are where this problem is occurring and where the Bank has a fairly long track record and perhaps some area of expertise. You will probably be aware that yesterday the World Bank launched what it is calling the Forest Carbon Partnership Facility to which Hilary Benn announced that the UK Government is contributing, I think, £15 million to a fund that I believe the Bank is envisaging will eventually announce some \$300 million and which will be used effectively to kick-start the trade in avoided deforestation carbon credits. This is a potentially key role but is again perhaps one where we might see that there is something of a disparity between what the Bank appears to be planning to do and where our own Government's views lie. For example, the Bank has not ruled out that some of this funding will be used to promote industrial logging activities in tropical rainforests, whereas only two years ago Baroness Amos rightly pointed out in a Lords debate that tropical logging has failed to deliver the environmental, social or economic benefits that were expected, so this is an area of apparent disparity. But there is a more profound problem with what the Bank is planning to do with these forest-based carbon credits. I am sure the Committee will be aware that the global carbon markets are extremely finely balanced at the moment and the relationship between the supply and demand of these credits has a very important role in the price of credits and that in turn determines the extent to which funds are available for pollution abatement or, indeed, for avoided deforestation activities. There have been concerns about the possible impact of these carbon markets being very quickly flooded if there is an influx of forest or avoided deforestation credits. We have made inquiries about this and as the World Bank has now launched this plan to kick-start these forest carbon markets, we asked whether there has been any analysis by the Bank of what the likely impact of these forest-based credits is going to be on carbon markets. The answer is that there has been no analysis. There is a real risk that what the World Bank is doing in kick-starting these forest-based carbon credit markets is to undermine, potentially, the global carbon markets. This would not be the first time, of course, that the Bank has inadvertently served to seriously disrupt commodity markets, and what has happened in the coffee markets over the

³ International Development Association

⁴ International Finance Corporation

⁵ International Monetary Fund

⁶ Conference of Parties/Meeting of Parties to the

⁷ United Nations Framework Convention in Climate Change

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last 10 years might be an example of this, only in this case it would, of course, have global implications for our ability to tackle climate change. So, I think this is an area where the Bank is going to play a role, but we should have extreme concern about the way this might develop in coming years.

Chairman: That is useful evidence.

Q60 John Battle: Could I start by welcoming your starting point. For too long—certainly 20 years ago—environment and poverty, or poor people, were set against each other so that the welding together of those is absolutely central now to the debate so that we do not end up where we were in the early 1980s with, in crude terms, the setting of people against trees. I can remember in Amazonia, where I was, suggestions of reservations for the poor people, the native tribes, on the grounds that others would manage the forest better for them, and that also applied in both Indonesia and Papua New Guinea—so that is the starting point. If I could ask the question, if we are trying to fuse together tackling poverty and sustainability, the Bank’s senior management have really turned their face to some extent against the Extractive Industries Review and said, no, we are going to press ahead. I suspect, and I wonder whether you would give any credence to their view that in securing energy on a large scale for communities such as Khayelitsha in South Africa, where over a million people now have energy, they need to make sure that an investment strategy includes energy security and because of the proportionality being so small in renewables, we cannot get there quickly enough and that is why they are maybe arguing that they are sticking with the traditional fossil and carbon fuels. Would you give that argument any credence at all or just say we should get out?

Mr Pendleton: Christian Aid’s view would be that now, given the two parts of that argument, it probably is time for the World Bank to phase out its investment in fossil fuels. The two sides of the argument really are: are the benefits to the poorest strong enough? And I think that the evidence is that they are largely not. One of the problems with providing large amounts of energy—or trying to—via a large-scale model of peri-urban communities is that that can provide a further draw, whereas there has been a good deal of success in providing energy to smaller, rural communities and where that happens I am not sure that I accept the point that it cannot happen now or at scale. I think it can, it has just not received the backing, and that is largely policy as much as financial backing, as it should have done and could have done. So that is one side of the debate. The second side of the debate, which is very well worn but nevertheless worth repeating, is the problem of extraction and there are very few, if any, cases of extraction of fossil fuels and particularly of gas, in developing countries where it has provided widescale benefits to the poorest and very many where it has fuelled pre-existing problems, which is effectively what the Extractive Industries Review said, with governance, with corruption and with pre-existing conflict. Combining those two things

together and given that a lot of those projects would almost certainly continue anyway and continue in the private sector, which is largely where they are because the majority of financing in those projects is private sector financing, then the argument for spending scarce aid money when there are so many opportunities for providing energy for the poorest and therefore livelihood opportunities in the immediate term via other means, is getting very hard to defend.

Q61 John Battle: Would you include then under that critique the World Bank as well as extractive industries, obviously provides money for traditional power stations and the critique, well-worn, to use your phrase, was that the power station then sent the electricity over the wires to drive the hairdryers in the posh hotels and in doing so passed over shanty towns where nobody had energy at all? Would you apply it to the production of energy as well and say we should go small-scale now, if that is what you are saying?

Mr Pendleton: There is a big challenge there for financing organisations such as DFID and the World Bank and here is where the coherence question is really important because we set ourselves domestically a renewable energy target of 20%—possibly 20%—by 2020.

Q62 John Battle: So if I followed that through, have you done any research, then, on the potential impact of micropower in developing countries?

Mr Pendleton: What I can point you towards is the Ashden Sustainable Energy Awards experience where they have 52 award winners over the years they have been operating, all of which point to two things. One is that those kinds of projects can provide very important benefits for poor people but also in many cases they are “scale-able” and I think that is the critical question because the question one always gets asked in this area is, ok it can provide a small amount of benefit for a small number of people, can you scale it up? The answer is, yes. That ties in very much with a policy question at the World Bank which is, how are you intending to bring about development? The question for us—and it is a question for DFID as well as for the World Bank—is if your intention is to benefit the lives and livelihoods of poor people, then that is really where you need to start. It sounds like a very obvious point to make but so many of the policies of the donors, and particularly the multilaterals, is to start at the top and work their way down. I think that is a tired view that is running out of steam rapidly.

Q63 Hugh Bayley: You were saying that you thought the time had now come for the World Bank to pull out of fossil fuels. China is desperate for oil and in the past year it has been a bigger investor through the China Eximbank⁸ in Africa than the World Bank has been. If the World Bank pulls out,

⁸ The Export-Import Bank of China

China will pull in. Do you think China will be better at doing impact assessments and will it have a better pro-poverty focus?

Mr Pendleton: Possibly not, but I think the issue is how good has the World Bank really been at ensuring that those safeguards are followed through. The answer to that question from the Extractive Industries Review—I was the author of a report in 2003 for Christian Aid called *Fuelling Poverty*, which looked at a number of situations where the Bank had offered assurances and tried to build in safeguards and they had largely failed—the unfortunate side-effect, very often, of large-scale fossil fuel extraction . . .⁹

Q64 Hugh Bayley: It is going to happen anyway; that was the point I am making. Who should be the handmaiden, is the question—a flawed World Bank or a more flawed Chinese Eximbank?

Mr Pendleton: My question back would be, is that an appropriate use of, particularly, overseas development assistance money, but also multilateral assistance money? In Christian Aid's view, the answer to that question would be, no. You can bring very much more benefit to very many poor people by doing two things, in response to that. One is by funding the kinds of projects we have been talking about and secondly, is by funding the communities that are likely to be affected by those extraction projects, directly to support them, to manage the impact, but also possibly to resist, too. You have a lot more success where communities are vocal and have a voice and are able to provide a role . . .

Q65 Hugh Bayley: But are you not confusing two things here? It is not the IDA money, it is not the aid money that is being used to finance pipelines or oil exploration, it is commercial money, it is loan money. So it is wrong to say that the money could be spent more profitably.

Mr Pendleton: It is concessional commercial money and it is generated by taxpayers rather than by commercial corporations. I do not see why that money, which is offered as a huge concession to those countries, should be used for projects which in many cases demonstrably harm the poorest people rather than providing tangible benefits. If we are looking for tangible benefits then start where poor people are and not where you hope they might be.

Chairman: I will bring Ann McKechin in on the same line of questioning. I do not want to cut the other two out but I think it is all related.

Q66 Ann McKechin: I am interested, Mr Pendleton, in that as a charity which regularly tells us that the questions about liberalisation of markets should be based on sequencing, that you take a very absolute approach when it comes to investment in extractive industries. If I can put it to you that when we spoke to the IFC when the Committee visited them a couple of weeks ago and we put this question to them about the issue of fossil fuel investment, we were told by the IFC fund, and I appreciate that there are some

IDA funds also involved but its bulk is IFC, that 70% was currently spent on gas, as opposed to oil or coal, and the vast bulk of that in turn was used for domestic consumption. Perhaps I could put it to you that sometimes the impression from your own literature is that this can be exclusively used for multinational exploration of oil which then goes on to the export market. It would not appear that is the analysis which the World Bank have of the way they spend their money. I am just wondering to what extent you think that there has been a change, even in the fossil fuel investment in recent years by the World Bank, towards more domestic consumption and perhaps if I might put it, the more environmentally sensitive fossil fuel which is gas as opposed to coal?

Mr Pendleton: There is a case, for instance, in the case we looked at in Nigeria in the *Power of Poverty* report we published before the annual meeting. There is a case in a country like that where there is a profusion of gas that is produced as a by-product of the oil industry and most of which is flared, as an interim fuel for households. That certainly has not been explored, but is currently being explored through the energy sector reform plan.

Q67 Ann McKechin: Do you think that would be a reasonable investment for the World Bank to consider?

Mr Pendleton: Certainly, if it was demonstrably being used for households, I think so. But certainly the history of Bank involvement in extraction projects is a sorry one and the Extractive Industries Review is very clear on that. It is right to make distinctions. I am not quite clear on the point you are making. Perhaps you could clarify it for me—the difference between sequencing and liberalisation.

Q68 Ann McKechin: You have talked about various projects at a pretty small scale, and scaling up from one million people to use by potentially up to one billion is a huge feat of engineering and capacity building. The cost of renewable energy is generally at the moment, at current market conditions, more expensive than gas. So why are we saying to poorer countries that you should then suddenly turn all your systems towards renewable energies only, when you are actually sitting on a supply of energy which at the current prices is considerably cheaper and would therefore allow you to expand your economy faster, potentially?

Mr Pendleton: In a country such as Nigeria, you can perfectly see the logic of that. In a country such as Nicaragua, where the Bank advised through the energy sector reform to import a lot of oil, for instance, you cannot see the logic of it. Therefore, it does have to be done to a certain extent on a case-by-case basis. Poor people are such small users of the atmospheric commons that you cannot begrudge them a certain amount of carbon dioxide emission in excess of what they currently have. However, what we feel is that there are really important co-benefits to small-scale renewable energy. I do not accept the

⁹ Christian Aid, *Fuelling poverty: Oil, war and corruption*, 2003

point that it is not “scaleable up”, I really think it is, and there are really, really important co-benefits that are just not being explored.

Q69 Ann McKechin: Could you give me an example anywhere in the world where currently you have seen usage by a million people plus, because that would be the sort of scale we would be talking about of renewable energy? What example would you give?

Mr Pendleton: I gave two examples earlier, one of the use of gas which was generated from the composting of animal manure in Nepal, which meets a further need that is sheer geography and topography which means large-scale power is very difficult. That reaches 150,000 or so households, which is about a million or so people. Also, the Grameen Bank solar lighting fund has been achieved on a financially sustainable means through the use of micro-finance. It is also important to ask a serious question about the commonly-held belief that these are not affordable technologies because in some cases they may well be. Christian Aid is an organisation . . .

Q70 Ann McKechin: I am not saying they are not affordable, I am just saying are they less expensive. Are they more expensive, in an urban setting rather than rural?

Mr Pendleton: It is very unusual for an energy system, particularly where you are talking about providing energy to people with very little ability to pay; where you are not going to have some form of subsidy in that. That is one of the flaws of the World Bank privatisation model. Our fear is that you will end up, if you go for large-scale energy development, potentially down the road with an awful lot of stranded assets in carbon emissions that countries ultimately, because of how the international agreement plays out, can no longer use. That would be a real shame. To throw development assistance money in that direction when there are alternatives that could be employed already.

Q71 Chairman: Yes, you would both like to come in.

Mr Counsell: We probably need to remind ourselves that the energy source upon which the vast majority of the world’s poor depends is either already sustainable or is potentially sustainable, and it is called wood. The kind of examples of Bank interventions that we have seen in forest sectors in the Congo, for example, and other parts of the world, are a cause, if not for alarm, then certainly concern, where the access of poor people to this renewable resource is either being curtailed or potentially reduced through Bank interventions, whilst, on the other hand, we are seeing these massive interventions in absolutely non-renewable energy.

Q72 Ann McKechin: You have certainly talked about the DRC¹⁰ and you have some very valid points to make there, but the DRC is also sitting on absolutely huge supplies of natural gas. Say, for

example, they wanted to use that for domestic energy production in the region, are you saying the World Bank should never have invested there?

Mr Counsell: Possibly, and I am sure there will be plenty of members of the private sector that will be eyeing that very eagerly. The question would be, is this the role for the World Bank or should the World Bank be looking at the dependence of 50 million of the world’s poorest people on wood and ensuring that they have secure access to it and that it can be managed sustainably rather than, as has been the case, assuming that the way ahead is very much the top-down approach that Andrew has been talking about?

Q73 Ann McKechin: But Mr Counsell, as the Chairman pointed out, they are a bank. They rely on people coming to them with applications, that is, the countries. It really depends on the capacity of the countries and their priorities as to what they want to exploit first. I am sure all of you have said in the past that the World Bank should not dictate to countries what they want to do about their economy and how they grow it. I put it to you about the issue, first, the capacity of countries to develop alternatives and secondly, how quickly you think realistically a country like the DRC would suddenly be able to scale up and put all applications for energy all through a renewable sector? It would take quite a time would it not?

Ms Craeynest: I would like to take us back and look at the bigger problem, which is the need to address climate change extremely urgently. There is a meeting going on—UNFCCC—at the moment in Bali. We need to keep global temperature rises under 2° to avoid the worst impact of climate change. The worst impacts of climate change will impact on the poorest people. We know that; we have seen from the predictions in terms of flooding and drought and sea-level rise, who will be impacted. We are not denying that there is a real issue there in terms of what the Bank’s role is in energy provision. At the same time, WWF’s own climate solutions report has done two years of research into what a low-carbon future could look like where energy needs for both developing and developed countries are being served. The research has come out showing that it is possible, even including a portion—up to 15%—of fossil fuels which is equipped with CCS (carbon capture and storage). But a large majority is accounted for by energy efficiency and new renewable technologies such as wind, solar and thermal power. The real question is around, as you said, the cost of the technology. The World Bank’s funding of cheap loans is in effect a subsidy. What we really need to do is shift the subsidy systems in favour of new renewables and away from fossil fuels. This is not a unique case where the World Bank is giving subsidies to the oil sector. The UK Government itself is doing it by extending guarantees through the Export Credit Guarantee Department for British oil business abroad. This is a pervasive issue that the oil industry is being funded, while at the same time causing climate change to happen. It is a double whammy for poor people.

¹⁰ Democratic Republic of Congo

They are being lined up for being the worst victims in 50 years' time, and at the same time they are not getting the energy because the energy systems continue to be centralised to such an extent that they are not going to be the beneficiaries. It is a difficult question but what we are arguing is that the World Bank should take a lead in helping to shift the global energy provision system and making it more financially viable to invest in new renewables. The World Bank can play a key role, it has exemplified it. It is investing to some extent, the problem is the balance of it, and it continues to have a very uneven-handed approach to both technologies, that is the problem. There are some really good examples.

Q74 Ann McKechin: You have talked about mechanisms, should you be doing something differently in middle-income countries, rather than in the poorest countries, given the differences in capacity, in terms of what the mechanisms might be?

Ms Craeynest: Obviously, there are very different challenges in low-income countries and middle-income countries. A middle-income country like China, as you pointed out, is highly dependent on coal at the moment and is building power stations regularly. There are different approaches needed. Carbon capture and storage will be an essential technology in China. Is that an appropriate use of aid money that is supposed to benefit poor people? That is an entirely different question. We feel strongly that because this is a climate change related issue, it is a problem that has been caused by industrialised nations and we helped set this problem on a path.

Q75 Ann McKechin: The IFC mechanism would be suitable then?

Ms Craeynest: The IFC provides loans against the guarantees provided through public subsidies—Andrew is much more of an expert on this—the IFC provides subsidised commercial loans. Maybe Andrew can come in on this.

Q76 Ann McKechin: From high carbon emission countries to low carbon emission countries—would that not be an example of what we should be putting money in?

Mr Pendleton: The question—and it is a genuine one—is the contribution that the IFC can make.

The Committee suspended from 3.10 pm to 3.20 pm for a division in the House.

Chairman: Given that we have lost a bit of time, I am not trying to inhibit anybody but if we can be a little bit crisper, we can get more done.

Q77 Ann McKechin: When you are talking about renewables, in your submissions, you argue against, in certain instances, the use of hydropower within that category. I wonder why you argue that and do you make any distinction between medium-scale hydropower or large-scale hydropower, and whether or not it has the consent of local communities?

Ms Craeynest: On hydropower, there has been a big investigation by the World Commission on Dams, which was commissioned by the World Bank itself, under pressure, of course, by lots of communities and NGOs worldwide. It found that there are large hydro-dams which are above 10 megawatts where there are some serious social environmental concerns because obviously there are displacement issues of people, communities living in the area, and issues to do with river flow and biodiversity in the area. That is one concern. The World Commission on Dams recommended guidelines for the World Bank to take up but the World Bank has refused to take those up and said that its own social environmental safeguards are enough to manage big hydropower dams. WWF had a recent report, in 2006, with Oxfam and WaterAid, which calls for the World Bank to adopt those guidelines because they do require different social environmental guidelines. That is one issue. Secondly, the actual carbon benefit of large hydro-dams is not as low as the World Bank says it is—it categorises it as a low-carbon technology—but because of the flooding and the submerging of large areas of biomass of forests and grasslands and the decomposition of vegetation of that grassland, there are some serious carbon emissions resulting from that. Emissions need to be looked at on a case-by-case basis so just to include the whole technology as a low-carbon technology is potentially problematic.

Q78 Ann McKechin: It would depend where it is located?

Ms Craeynest: Yes, absolutely. And on what area has been flooded. So to just include it as part of low-carbon technology is problematic in itself. Finally, this being the strategy in the context of climate change, where river flows are being predicted to be affected by climate change. To build your strategy around hydro-dams is potentially problematic considering the river flows themselves might be impacted because of warmer temperatures. One of the key issues with including hydro-dams in low-carbon technologies is that the World Bank has been able to claim that it is doing much more than it is actually doing on new renewable technologies. One of the World Bank press releases in October claimed that low-carbon technologies had increased by 67%, but over half of them—\$750 million—go towards hydro-powered dams, leaving just about \$650 million for new renewables and energy efficiency, which is only 2% larger than last year. There are some serious issues going on with the reporting of figures and we are quite concerned and do not quite understand why this number game is being played while we are dealing with this very serious climate change challenge. There are issues with numbers and we would like more transparent reporting from the World Bank.

Q79 Ann McKechin: So you are not absolutely against hydropower; it just depends whether or not it meets certain standards?

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Ms Craeynest: Exactly, when the World Commission on Dams guidelines are being followed. But at the same time, hydro-dams are existing technologies and require lots of money, so we would want to make sure that it does not crowd out alternative technologies. Again, according to the WWF's vision for energy provision, the largest amount of energy will be able to be provided by solar and thermal, winds, etc.

Q80 Sir Robert Smith: I suppose this leads on in a way to the fact that individual projects should be properly assessed and also involve the community where at all possible in a proper rights-based approach to deciding how best to assess the impact. The poverty and social impact analysis (PSIA) tool is the World Bank's tool for development projects but not for all investment projects. What is your assessment of how rigorous the Bank's impact assessment mechanisms really are?

Mr Counsell: I could try and answer that partially, perhaps. The important point to remember is that the Bank does not have a formal rights-based approach policy as such. The extent to which the rights of communities in the areas in which these projects or programmes are taking place are taken into account depends largely on the application and implementation of the various safeguards policies—the indigenous people's policy, the resettlement policy, the cultural knowledge policy—all of these have an impact on the rights of communities. The example that we gave in our written evidence was one where there appears—and this is certainly borne out by the report of the Inspection Panel—to have been egregious failures to either trigger or to establish or implement any of these safeguard policies. In this particular case, it is potentially having an impact on the rights and livelihoods of tens of millions of poor people. That is not, of course, in any way an isolated example, there are many cases where there have been similar failures, apparently, on the part of the Bank. To me, there is a wider issue here in this case about the whole question of accountability, and coming back to the subject of this Committee hearing which is about the relationship between the Bank's policies and DFID's policies. What has happened in the case of the Congo, with these forestry programmes from the Bank, is clearly not consistent with what DFID would have wished to happen there, I believe, despite the fact that the UK Executive Director was forewarned well in advance about some of these projects which have now proven to have been faulty; was warned in advance of the Bank board approval of these projects, as indeed were various DFID staff at the time. Yet, still these projects were approved, with our UK ED's support and which have now proven to be so deficient. Questions must be raised as to how this has happened. Are there questions here about the capacity of DFID staff to thoroughly check that the appropriate safeguard policies with so many of these large Bank projects are being properly assessed and properly triggered and then properly implemented through the course of those projects. That raises a major question about the DFID

resources and capacity to do this because we are talking about hundreds of projects every year; and some of them are extremely large and complex.

Q81 Chairman: Is that a difficult job for a part-time director?

Mr Counsell: Almost impossible. He would be reliant entirely on advice from the specialists and the advisers. In some areas—and I come back to the area of forests as it is so crucial in the livelihoods of so many of the world's poor—this is one area where DFID resources internally have increased a little over the last few years, but it is an area where there cannot be anything like enough capacity to ensure that the Bank's projects in these areas are consistent with our own policies.

Q82 Sir Robert Smith: Is this insurance, though, to make sure that the Bank's systems are the right systems and being properly policed, or is there still a point in getting a multinational institution, to which you are giving the funds to carry out the project, if you are then going to have to assess every project yourself as well?

Mr Counsell: It could be that the systems need to be tightened up such that we do not have to apply scrutiny to every single one of the projects or programmes that are coming in front of our Executive Director. One could also take a sampling approach and pull out a few every now and again and say "is this working?" In a sense, that is what the Inspection Panel is doing.

Q83 Sir Robert Smith: Do you think in the World Bank, it is that they need to change the policies or is it that the policies that they have need to be applied more rigorously?

Mr Counsell: Some of the policies probably could be stronger, yes, but at the moment the struggle would seem to be to get the Bank to apply the policies that it has more rigorously.

Q84 Sir Robert Smith: Presumably, you have a similar view?

Mr Pendleton: If I may, I have two quick points on PSIA, which is something Christian Aid has been very supportive of and this was welcomed in the Bank's process. There is plenty of evidence from the Bank's own reviews that they are not always conducted, and when they are they do not consider the range of available options. A poverty and social impact assessment is one option, when probably they should be considering a range of options and therefore not just saying yes or no to something, but be saying, if not this, then perhaps something else. There are some very good examples of where that has been the case with some very big policy change, such as through reform of the energy sector where there are poverty and social impact assessments done about the potential for private sector participation, but not public community sector participation, for instance, which might offer other co-benefits. We would welcome the PSIA system but

would wonder a little about how rigidly it is used and also about whether it should not contain a range of options.

Q85 Sir Robert Smith: We were told it is used for all development projects but on a case-by-case basis for investment projects, which goes back to some of the earlier exchanges about the different role of development as opposed to investment funding?

Mr Pendleton: I think so, but more pertinently, where a developing country's central government policy change is involved, it may well be particularly pertinent because that is where you need to understand what the impact is going to be on the poorest. Arguably, in any energy-related project, that should very definitely be the case.

Mr Counsell: Could I add very briefly, there is also the point to remember that Budgetary Support programmes, which have tended to increase, I understand, as an overall percentage of the kinds of programmes that the Bank is supporting, are not subject to any of the safeguard procedures whatsoever, as yet, contrary to arguments and concerns that the NGO community has been raising for a number of years. Significant parts of Bank lending, or Bank granting, rather, completely bypass all of the safeguard procedures.

Q86 Jim Sheridan: Reference has already been made to the Bali conference and I understand a number of goals have been set for the conference in terms of sharing knowledge, best practice and technological advances that may have taken place. It is on that basis that I would like to ask you to expand on how you think the Bali conference is going. There are a few points I would like to make: the role of the World Bank and any international regime about climate change, could you expand on how you see the role of the World Bank in any international set up? Finally, on the question of climate change or any agreement, do you think that countries like India, China or America are serious and take climate change seriously?

Ms Craeynest: We have already, to some extent, referred to some of the ideas on the role for the Bank post-Kyoto when we were talking about the forest carbon partnership facility as well as WWF's concerns on international governance of the environment, so our key demand would be that the role the World Bank plays within an international framework could be, for example as Andrew outlined with the adaptation fund, as a trustee but not as a decision-maker. One of the key issues, of course, still, with the World Bank is the way it is governed and there is far too much dominance of developed countries and too few seats at the table for developing countries. With the environment being an international issue, a global issue and with the largest biodiversity being in developing countries—like the Congo and Papua New Guinea—those countries need to have a seat on the board. The World Bank can play a role but it needs to be in line with international agreements and with different democratic governance systems.

Q87 Jim Sheridan: Could you define what you mean by a trustee?

Ms Craeynest: A trustee—I am not a 100% sure how it works.

Mr Pendleton: A bit like a finance trustee on a board. In effect, the World Bank returning to its core purpose as a grant-making and lending institution for development but with the decision-making lying elsewhere. The critical thing which Lies was alluding to and which I mentioned earlier is that carbon financing, whatever mechanisms the actors in the international agreement choose, is not rich countries' money. It is going to come out of financing, which is essentially about poorer countries selling parts of their atmosphere in terms of carbon credits in one way or another. Therefore, those countries will not offer us any choice in this. They are necessarily going to want a bigger role in saying how that money is spent, so the days of the system of having those decisions made in Washington by a board dominated by the existing shareholders of the Bank may well be numbered.

Q88 Jim Sheridan: Most trustees are involved in decision-making. Would trustees be involved in setting limits or targets or things like that?

Mr Pendleton: That is to be decided and I will be very interested to see. It may be worth the Committee looking at the decision in more detail around the Adaptation Fund in Bali. That is going to prove a really interesting model for how financing around climate change takes place, where the decision-making, as I understand it, has largely been taken away from the Bank and the Global Environment Facility and put in the hands of a specially set up board which is going to be answerable to the UNFCCC. Given that the agreement is likely to take place, unless the Americans are successful in derailing it under the United Nations Framework Convention on Climate Change, and if it is adequate and sufficient, it will produce an awful lot of finance because developing countries are going to need a lot of finance to help them switch to sustainable, renewable technologies in order to continue their development and also to adapt to the impact of climate change. That is a really interesting model which deserves some investigation.

Q89 Jim Sheridan: Is there any tangible evidence that, with all these best practices, the technological advances, are coming out of the conference?

Mr Pendleton: It has been a major sticking point in Bali. There has been an awful lot of wrangling. The US, particularly, which argued some years ago that targets were less important than transfer of technology, is now ironically arguing against transfer of technology. There was a trade ministers' meeting at the weekend which produced some quite worrying words about the need to cut tariffs on green goods. The definition of green goods is by no means clear and therefore it could just be a means by which we sell poorer countries more of our stuff under the heading of green goods. That is a worrying development because from our point of view technology transfer is not about flogging stuff, it is

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about allowing access to technology which is going to be essential for people's development but also managing climate change.

Q90 Jim Sheridan: On the question of America and India, are they serious do you think about engaging in climate change?

Mr Pendleton: There is more encouragement from Christian Aid's point of view and we are observers in the same way as probably everyone in this room is an observer of the process, rather than a formal participant. Certainly, our observation would be that China has set itself some quite tough renewable energy efficiency targets and is tending to play a much more positive role in engaging. But, as a country that does not see itself as historically responsible for climate change to the same extent as the US and Europe, and also still does not have the same ability to pay for the impact of climate change and for the cost of switching to different technologies, sees itself as playing less of a role in that. It is understandably unwilling to sign up to something before the big players have got on board, like the US. India is a country that is going to need a lot of assistance and support to play a more meaningful part. Christian Aid is certainly starting to do work with our Indian partners on their role in supporting their Government to make some clearer decisions about what it wants out of the climate change discussion. With the US, it is fair to say, particularly given the EU's comments today, saying that it will not actually participate in the major emitters conference after Christmas if the US does not play a more positive role in Bali. It is fair to say that the US has been wholly divisive.

Chairman: That was clear and succinct.

Q91 Mr Singh: You touched on financing for climate change a moment ago. What we are seeing in this area is that the proliferation of funds—the GEF,¹¹ the Special Climate Change Fund, the Least Developed Country Fund, the Kyoto Protocol Adaptation Fund, the CEIF,¹² and I am sure there are going to be more. My question is, is this proliferation a good thing or a bad thing? The second issue is that they are not fully funded at the moment, so what is the prospect of new funds being fully funded? The account presented at the GEF Council meeting showed that less than 20% had been paid into the fund in terms of the commitments. The third area is, what role should DFID be playing? Should DFID be concentrating on the full financing of existing funds or committing itself to new funds, which might be better adapted to meet today's needs. Finally, should there be a co-ordination mechanism for all these funds—bilateral, multilateral, through the World Bank, or whatever? How do we handle all this?

Mr Pendleton: The proliferation of funding is an interesting question. If we take a step back and look at the trend with Overseas Development Assistance in general. The G8 is certainly backing away from some of its commitments made in 2005, this year in

Germany, which is disappointing but indicates perhaps that further increases in Overseas Development Assistance are unlikely to come, certainly in the volumes that may well be required to help poor countries adapt to climate change. A recent Oxfam report pointed towards the need for probably ultimately £50 billion or so of additional funding to help poor communities adapt, with a £1–2 billion necessity right now. That may well be by some people's thoughts an underestimation, too. There is going to be large amounts of funding necessary and therefore the Adaptation Fund model, which is a levy on a carbon transaction, rather than the other two climate change funds—the Special Climate Change Fund and the Least Developed Countries Fund, which are still reliant on political will on the giving of Overseas Development Assistance in essence, and not additional to the funds that have already been promised to poor people, then the Adaptation Fund model provides more hope and perhaps a way forward and we should look at all carbon transactions and all carbon financing for a means by which to lever money for adaptation, even in domestic funds so if the UK Government sets up its own carbon trading domestically, in auctioning the emissions upfront it should take a small proportion of that to give towards additional adaptation overseas. Our concern, to finish off, about DFID's involvement in adaptation funding, even though its performance is very much better than many other countries, or the UK's, is that it is still not additional, and this is an additional financing question.

Q92 Mr Singh: Is it that the Adaptation Fund could be self-financing?

Mr Pendleton: The Adaptation Fund is funded through a 2% levy on pre-development mechanism transactions, so clearly the more of those transactions there are, the bigger the fund. There will be, as I say, if the Bali process over the next two years is in any way successful, more carbon financing then there is more opportunity clearly there for levies and other measures to ensure that there is money for adaptation, which regardless of what we do with emissions will now be necessary.

Ms Craeynest: Following on specifically with regard to DFID's role, perhaps you might be interested in the Environmental Transformation Fund in particular, which was launched this year, an £800 million international window. As NGOs, we have been working and looking at the Environmental Transformation Fund, including Christian Aid, Oxfam, CARE, WWF, RSPB, through the development and environment group and we have a number of concerns. One of them is exactly in relation to what you raised, which is the proliferation of funds in response to climate change. A quick trawl that we did raised just at first go about nine funds being launched in the past year—the Australians, the Canadians, the Dutch have launched funds. One of our key concerns would be, what is DFID doing to ensure that there is no duplication or contradiction with existing

¹¹ Global Environment Facility

¹² Clean Energy Investment Framework

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funds. One of the big problems with the ETF¹³ is that it is capital money so it has to buy a stake for the British Government into something else, which means that basically has to be loans. This obviously restricts very much the possibility of what the Government can do with this money and it cannot necessarily contribute to a European fund, for example, the European Adaptation Fund or the European Climate Change Alliance, because of its very nature. The fact that it is loans is a concern for us because DFID aims to fund clean energy, forests and adaptation with this fund. It being loans, we feel it highly inappropriate to fund these sectors—forestry and adaptation—with loans. Perhaps in clean energy there might be a role, through the World Bank, to start shifting what we talked about before, towards new renewable energy, but we are very concerned about these other new sectors. On top of that, because this is what the British Government would like to do, it has asked the World Bank to set up a new fund—the Transformation Fund for Sustainable Development at the World Bank, which will be administered by the Bank in a slightly similar way to the GEF Adaptation Fund, it being just a trustee. We are concerned that this potentially could set up mechanisms which conflict with internationally agreed mechanisms to deal with environment, such as the GEF, for example, which is agreed by international treaties and conventions. So, there are quite a number of concerns in terms of coherence and co-ordination and so far we have not seen evidence that this has been appropriately addressed yet. There is one final point. To call it the Environment Transformation Fund we feel is highly problematic because it is just dealing with a tiny aspect of what the environment is and there are so many other issues that need to be addressed.

Q93 Hugh Bayley: There are just a couple of points I would like to pick up on. I hear what you say about the mushrooming number of funds but I would like you to consider a further fund that might be established. I was talking to Sir Nicholas Stern recently. His best estimate of the additional funding that would be needed to address global climate change needs would be something like £60–70 billion a year between now and 2050, which, of course, was not factored into the Monterey/Glencoe doubling of aid process; so, substantially more money is needed. When we were talking to Kathy Sierra, the VP for Sustainable Development, at the Bank a couple of weeks ago, she said that she thought an IFF—International Finance Facility—fund to deal with—I think she was talking about mitigation rather than adaptation—but mitigation might be a way to do it. I do not know how much background you have on Gordon Brown's IFF proposals, but the idea was to bring a lot of the spending of aid forward in relation to the Millennium Development Goals. As a generalist mechanism it has not won global support but there has been a very successful

IFFIm—International Finance Facility for Immunisation—which raised hundreds of millions of dollars to pay for immunisation. It seems, as a financing mechanism, to work particularly well where you are making an investment of a kind that gives a bigger return if the investment is early. If you immunise a million people this year, you will save more lives than if you immunise 100,000 people a year for 10 years. If you can front-load your spending and then the donors pay off that spending over a longer period of time that would help. Because the problem with carbon emissions is not the flow, the emission year-by-year, but the stock of carbon in the atmosphere, if you take action early you would have a bigger mitigating effect if you take it this year than if you take it in 10 little bites over the next decade. So, do you think it might be sensible to get the global debate about using an International Finance Facility up and running again in relation to climate change? The idea being that the donors will say, we will put in the money over 10 years but we will use that pledge to raise 90% of the money from capital markets, private money, and it is a way of spreading the public expenditure pain for donor countries over a longer period whilst getting the public expenditure gain for the developing world earlier.

Mr Pendleton: Christian Aid's concern always about the IFF, though we felt it was welcome as an idea, was that there is a moment of truth further down the line and it is not necessarily that much further down the line and, therefore, what we did not want to see was the use of development assistance money to meet the debt when it became repayable further down the line; that was a concern. Nevertheless, I can see the point and it is an interesting suggestion. There are a number of different financing mechanisms that we might want to look at in terms of leveraging financing now, particularly for mitigation obviously in order to stop the proliferation of greenhouse gases in the atmosphere as much as possible. Perhaps it is also worth looking at taxation systems because there is an awful lot of untaxed money circulating, or rather, not circulating in the world—something like \$11.5 trillion held offshore by high-worth individuals alone, which is largely untaxed and that is notwithstanding the kinds of money that is moved through tax havens by companies. Therefore, having access to that kind of financing at this point might be very useful. My concern about having transactions such as carbon trading as the main response to climate change mitigation is two-fold. One is that it is difficult to see how those transactions are going to be very accessible to poor people, given that poor people's access to markets is always very difficult and fragile because essentially they lack the market information they require to play a meaningful part in them. Secondly, governments are going to need revenue in order to cope with climate change because they are going to need to be able to incentivise markets in some places and disincentivise markets in others. Therefore, a system which at least had auctioning of emissions, if not taxation of emissions up front,

¹³ Environmental Transformation Fund

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is ultimately probably going to be necessary, and I know is favoured by increasing numbers of people in the commercial sector as well as in the NGO sector, such as ourselves.

Mr Counsell: If I could just add to that in terms of dealing with this problem of tropical deforestation, a fifth or a quarter of global carbon emissions, we have to appreciate that there are very serious capacity problems in tackling that issue. Probably at this stage no amount of money thrown at it is going quickly to address the problem. We are talking about very large countries, in some cases with very weak governance, in fact, no governance in some instances, no institutions, very weak legal frameworks, and so on, and possibly talking about hundreds of millions of people in these forests and to some extent involved in the processes that are leading to deforestation. That is not a problem that can be tackled quickly. What I would say is that it is also not necessarily a problem where money is the issue. One of the most effective ways that has been shown to tackle that problem of tropical deforestation has been to ensure that these local people and local communities have secure tenure and rights access and that they have an incentive to look after the resources that they are responsible for. In that respect, money is not necessarily just the issue.

Q94 Hugh Bayley: There is one last point that I would like a quick response on, which is that as far as the Bank's programmes are concerned, what do you think the balance of funding should be between work on mitigation and work on adaptation? Both Kathy Sierra and Robert Zoellick told us that most of their work has been on mitigation. Do you think that is wrong and how should they rebalance that portfolio?

Ms Craeynest: It is a difficult question, of course, because both issues—mitigation and adaptation—are enormous areas of work. In the UNDP¹⁴ report we have been throwing up estimates but a bigger

estimate was from the UNDP recently which said that \$25–50 billion for mitigation and up to \$86 billion for adaptation was needed. From what I have seen from the World Bank, indeed the mitigation aspects have been obviously much bigger, with the Clean Energy Investment Framework that has been launched, etc., and adaptation work has been mainly focused on research, trying to include adaptation plans, trying to increase awareness for the need for adaptation. This comes back to very similar issues that we were talking about before: what exactly is the role of the World Bank? There might be legitimate areas where the World Bank can work and increase its investment in adaptation, if more funds become available through the GEF Adaptation Fund, maybe the World Bank could play a role in that. It comes back to the question of existing ODA going to poverty reduction, whether that should be used for mitigation or adaptation activities, considering this is extra and not calculated into the Monterrey financing commitment you talked about. More money will be needed, that is one key issue. Secondly, the most important issue at this stage is that the World Bank should address its continuing investment in climate-damaging activities, such as the fossil fuel investments, as well as its funding of environmentally damaging mining sectors, where it could make quite a good contribution to mitigation without pro-actively doing something. These are two key areas that could be addressed and if more money comes in, then the World Bank's knowledge could perhaps be used in the context of adaptation.

Chairman: I would like to thank all three of you for coming and giving your evidence. It really is very helpful for us to get a cross-section of views about how DFID interacts with the World Bank and obviously where the centre of gravity of climate change delivery for poor people is going to settle or how it might. I want to thank all three of you very much. I hope you enjoyed it.

Witnesses: **Mr Edward Bell**, International Alert, **Ms Helen Collinson**, independent consultant on aid architecture and **Ms Romilly Greenhill**, ActionAid UK gave evidence.

Q95 Chairman: Thank you for coming in for this second part of the evidence session. We are obviously continuing to look at the World Bank and DFID, but in the context of specific locations: Africa, Latin America and fragile states. I would appreciate it if you would introduce yourselves so that we have that on the record.

Mr Bell: My name is Edward Bell, I am Senior Programme Adviser at International Alert, which is a London-based, peace-building organisation, working for over 20 years with conflict-affected communities and on policy issues relating to those countries.

Ms Collinson: My name is Helen Collinson. I am here on behalf of CARE International UK. I should explain that most of the staff in CARE who work on

this issue are either unavailable or in the region. I am an independent consultant who has been brought in to share some of the findings of a research project which I co-ordinated for CARE this year, on the implications of changing donor policies in Latin America for the civil society organisations, with particular reference to DFID's regional assistance plan. If there are specific questions which I cannot answer, CARE has an adviser based in Lima, Peru, Mike Clulow, who works specifically on the IFIs¹⁵ in Latin America and CARE's engagement with the IFIs, and I can direct questions to Mike Clulow in Lima.

Ms Greenhill: I am Romilly Greenhill. I am a Senior Policy Officer with ActionAid. ActionAid is an international NGO, working in between 40 and 50

¹⁴ United Nations Development Programme

¹⁵ international financial institutions

countries worldwide, including a large number of African countries. I work in the UK policy department with a particular focus on aid, World Bank and debt issues.

Q96 Chairman: Thank you very much for that. We did have some discussion when we were talking to World Bank officials in Washington about middle-income priorities. As you know, the context for the UK is that we have, by Acts of Parliament, bilateral aid targeted 90% to low-income countries and only 10% to middle-income countries. But, of course, we are also giving money to multilateral institutions. There was some concern expressed that there are a lot of poor people in middle-income countries and that DFID does not have a very strong engagement with them and, to the extent that they do, it is through the Bank. I wonder if you could give a view, first of all, of whether you think that this 90/10 split is right; whether DFID is sufficiently engaged with poverty reduction in middle-income countries; and whether you think the arrangement in terms of its working through the Bank, which the Department would probably argue is the way they reach these people, is the most effective way to do it and if it works?

Ms Greenhill: From an NGO perspective, most NGOs think that the 90/10 split is appropriate for DFID. There are some very interesting questions about aid allocations and how we make the international system for allocating aid more effective, but DFID has quite a strong comparative advantage in the highly aid-dependent poor countries in terms of their expertise and their policy advice. Middle-income countries generally have more options in terms of alternative mechanisms for raising finance for development through the private sector—domestic taxation and so on. Most NGOs would be loath to see DFID moving away from that 90/10 split.

Mr Bell: Just to add a generic point on that. There are estimated to be about 40 fragile states, 40–50 fragile conflict-affected states worldwide. A recent World Bank study put the economic cost of each of those states at about \$100 billion, that is, about twice the annual aid budget. There are very good reasons in terms of conflict mitigation and conflict prevention that would argue for that to be the right proportion of assistance.

Q97 Chairman: I am not really challenging the 90/10 split, it is more about how effectively DFID can reach poor people in countries that are not low-income countries and whether the Bank is the best way to do it. I am sorry, the way I asked the question probably led you down that track. The question is, how effectively, given we have that split, can DFID reach those people and is their partnership with the World Bank an effective way of doing it?

Mr Bell: It depends on how you go about doing it. Certainly, we would argue from our experience that it is an expert, labour-intensive process by which the incentives for staff performance, for institutional performance, have to be adapted to that context and in some cases you see DFID doing this extremely

well and in some cases, you see the Bank doing it extremely well. From the research that we have done, it is quite unsystematic. It is very *ad hoc*, based on the personalities involved. The Bank is capable of operating extremely effectively but we would also suggest that it is not as effective as it could be.

Ms Collinson: What came clearly out of the research that CARE has done in Latin America is that the decision to channel much of a very reduced budget for Latin America through the World Bank and the IDB¹⁶ was a response to big budget cuts. With the small amount of money that was available to DFID in Latin America, the view was that, well, we are such tiny players now, we therefore need to look at linking up with much bigger partners. The basic concern is that there was not an analysis of what is the best way of spending money in Latin America to reduce poverty and inequality. The starting position was that our budget had been cut to virtually nothing in Latin America, so how can we make the most effective use of these very reduced funds? It is a reaction to a reduction in budget.

Q98 Chairman: If that budget starts to rise again, which it should do given (a) there is a rising budget, and (b)—well, it is a questionable (b)—but the draw on funds that have gone into Iraq might diminish, therefore more money should be available, do you think they should change the approach?

Ms Collinson: We feel very strongly that they should change the approach. We feel that there should be a proportionate increase in the budget for Latin America in line with the 11% increase projected in the recent CSR.¹⁷ When I say we, I am talking about CARE in this case. It may well be strategic to link up with the World Bank and the IDB in Latin America because DFID will still be a very small player and obviously those institutions are much larger. But the way in which DFID is engaging with those institutions at the moment, we would have serious questions about, and we are not the only ones that have raised some quite serious questions. There was a very weighty, interim evaluation undertaken of DFID's Regional Assistance Plan by the ODI,¹⁸ which came out earlier this year. A major concern at the moment is the very hands-off approach that DFID has in Latin America, which is in very stark contrast to the way that a relatively small DFID team worked in Latin America up until 2004. They had a very high reputation for high-calibre staff that really understood the realities in those countries, right on the ground. There was some very interesting feedback from CSOs¹⁹ in Bolivia about how DFID staff would go out there and cross rivers and really understand what was going on for poor people, facilitate dialogues between the IFIs and the Government and CSOs, etc. That rather abruptly came to an end in 2004 with these big budget cuts and the decision to channel the funding primarily through trust funds in the World Bank and the IDB and decentralised funds in addition to channelling

¹⁶ Inter-American Development Bank

¹⁷ Comprehensive Spending Review

¹⁸ Overseas Development Institute

¹⁹ Civil society organisations

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funding through INGOs.²⁰ But in both cases, whether it is going through the World Bank and the IDB or INGOs, there is this very hands-off approach now. We have had the closure of offices in Lima and in Tegucigalpa. The added value that DFID had in terms of understanding the realities in those countries on the ground, and having quite a lot of influence on the World Bank and the IDB on the ground, has largely been lost with the exception, arguably, of Nicaragua, where DFID still has a bilateral programme and our evidence suggests that the influence on the very institutions which the Regional Assistance Plan is saying it wants to influence, i.e., the World Bank and the IDB, has been greatest in Nicaragua where they still have a bilateral programme and they still have people on the ground.

Chairman: A very clear and interesting piece of evidence. We will have to go and vote again and I will come back to that.

The Committee suspended from 4.08 p.m. to 4.20 p.m. for a division in the House.

Q99 Chairman: I am going to take questions slightly out of order in the hope that John Battle's leg gets him back here in time so as not to lose his question. This question is to Mr Bell. The constitution of the Bank says it should issue its financing without regard to political considerations but whenever we take evidence there is clearly a political dimension to it; political perspectives, priorities and so forth. First of all, do you think the Bank is, in the proper sense of the word, a non-political institution? And, when it is working with fragile states, where by definition there is a lot of politics going on, what are the key factors that the Bank should take into account, legitimately, when it is dealing with fragile states if it is trying to do it in a way that, if it is political, it is not politically biased? Do you think the Bank actually does that?

Mr Bell: It is certainly capable of doing so. One of the questions that was asked in the first evidence session of this Committee was on how you build up active citizenship, how you increase accountability from the bottom up, and I think the work that we have done in International Alert is really showing that any kind of project, whether it is in the health sector, education or infrastructure, can act as a change agent on those states to society relationships. In that sense, you are having an inevitable political impact but it can be done in an extremely positive fashion. The other element that needs to be highlighted is that where something is extremely explicitly and overtly political, then bilateral donors that are partners of the World Bank in country have an enormous role to play in taking that explicit political dialogue forward. It can be seen in a number of countries in Africa, Asia or elsewhere.

Q100 Chairman: I take the point you were making but if you are dealing in fragile states, post-conflict states, you have very often got political factions, you have got priorities, you have got the whole explosive mix of resources and so forth, to what extent is there

a legitimate and useful role for the Bank to say, well, we have got to help determine what the political priorities are, like binding people into some kind of political compact, like, say, how we might jointly work out a development strategy for the country which is focused on things like poverty and genuine economic development rather than presumably what was previously the case which was a lot of vested interests looking after themselves?

Mr Bell: Absolutely. An enormously important role. Recently, over the last couple of years, DFID has funded, through the Bank, research on conflict sensitising poverty reduction strategy papers, which really is looking at the degree to which there can be more participation through a national plan to reduce poverty. In that sense, any kind of developmental process can be used in a transformatory sense. Another example I would use is this multi-donor, multi-country demobilisation reintegration programme, which is IDA funding plus at least 13 bilateral donors who participate. Through the partnership between the bilateral officials and World Bank officials you can make important progress in some of these very political areas by covering the different aspects, technical and political, in partnership.

Q101 Mr Singh: You seem quite dissatisfied with DFID's engagement with the World Bank, certainly over the issue of fragile states, but I suspect at a number of levels. Would you share with the Committee what the cause of this dissatisfaction is?

Mr Bell: It is a very difficult question because there are certain parts of the World Bank and certain parts of DFID that work extremely well together—the MDRP²¹ is one example, the DAC²² process on fragile states and on certain issues relating to conflict. There are other areas where there is very good co-operation but our concern is institution-wide. Some of the knowledge generation, some of the more progressive thinking is not spreading and percolating across the institutions as a whole. We would say that is also true of DFID, that conflict fragility, these issues tend to be put into a silo on one side of the institution and the rest of it proceeds as normal with a very different notion of development outcomes, a very different notion of improving the situation of the ultimate beneficiaries.

Q102 Mr Singh: But with DFID, specifically, you make the point of criticism that the staffing is not up to the level it should be in terms of human resources to be able either to engage with or monitor what the World Bank is doing. Is that the point you make?

Mr Bell: Absolutely, yes. For example, the multilateral unit within CHASE,²³ the conflict humanitarian part of DFID, does not have many staff and they have prioritised UN reform and to some extent engagement on the European Commission. You do not see in that staffing

²¹ Multi-Country Demobilization and Reintegration Program

²² Development Assistance Committee of the Organisation for Economic Co-operation and Development

²³ Conflict, Humanitarian and Security Department of DFID

²⁰ International non-governmental organisation

situation, nor in the PSA²⁴ that recently came out in October, any kind of awareness or agenda to conflict sensitise the way that the World Bank carries out its development activities.

Q103 Mr Singh: Is that a recent development or has it been an ongoing situation? Have the staff numbers been cut?

Mr Bell: I am not sure. It is clear that DFID has made a very strong political commitment to reducing the incidence of violent conflict but that has not come with the requisite levels of staffing that need to go with it. I would not say there has been a decision to cut staff but given the recognition of how important it is, there is not the same attention to the amount of expert labour and skills that are needed.

Q104 Mr Singh: Given the staffing levels that we have got, and if you have to prioritise, should DFID engage with the World Bank at in-country level or at headquarter level, if there is a choice to be made?

Mr Bell: Certainly, in-country. That is where ultimately the hardest negotiations take place but I would not want to say that in Washington, DC, there should not be attention to these issues as well. Too often, with country strategy papers, very large development programmes are waved through the Board of Directors without sufficient input from either DFID staff in the field or DFID staff in London.

Q105 Mr Singh: In your submission to us, in your Memorandum, you have a message for DFID to give to the World Bank management. Would you like to share the content of that message with us?

Mr Bell: The problem for the World Bank is that, as the Chairman has said, it has an article of agreement that means it cannot take into account political considerations but if you look at economic considerations you cannot separate them from political considerations. That message from DFID and other bilateral executive directors needs to come through into all parts of the World Bank's senior management, to then be passed down to the staff in the way that their performance is assessed. Too often performance is assessed on the basis of how much you get out of the door without due regard for whether or not it is possible to disperse that money. Take the example of Burundi. The Finance Minister recently signed certain cheques on her sole authorisation for \$17 million. That meant that the IMF could not give approval on the Sixth Review and all budget assistance had to be put on hold. Unless you take into account more the political and governance dynamics of a country and work out how to build up accountability from the bottom, any number of promises on money to be spent are meaningless.

Q106 Mr Singh: If we had to say, in a couple of seconds, in one line what would your message be to the World Bank, through DFID?

Mr Bell: That its performance assessment criteria need to change.

Chairman: Thank you.

Q107 Jim Sheridan: You gave us a brief insight into the validity of research that was carried out in Latin America—Peru, Bolivia, Nicaragua and Brazil. I just wondered if can maybe probe you a bit more and you could give us more information on that subject, in particular, the roles of the World Bank and DFID—is it consistent with the poverty priorities that we share? Is there any case or any possibility of any duplication from both these organisations?

Ms Collinson: Duplication between . . . ?

Q108 Jim Sheridan: DFID and the World Bank.

Ms Collinson: The research was looking primarily at the implications of DFID's Regional Assistance Plan 2004–07 for civil society organisations. Within that we looked in quite a lot of detail at how the shift from bilateral programmes to channelling funding through the World Bank and the IDB on the one hand, and through INGOs and NGOs on the other hand, was affecting CSOs, primarily Latin American CSOs. We talked to about 100 stakeholders across the four countries, about two-thirds of those were CSO representatives. The overriding issue to emphasise first of all is that we were largely interviewing civil society organisations and CARE is an international NGO itself. It is very difficult to find out exactly what work DFID is funding through the World Bank and the IDB in the way that the funding works at the moment. There is this split between funding trust funds based in Washington and then decentralised funds in the countries on the themes of access to markets and more accountable public sector management, etc. There is a broader issue which maybe the Committee is already engaged with about the lack of transparency around the trust funds. There is a very good paper that was written by the Bretton Woods Project on this in 2004 and I think they have been doing on-going work on it. To be honest until the ODI did its interim evaluation in January of this year, even the INGOs, the so-called PPA²⁵ INGOs have a partnership programme agreement with DFID, so they are getting £6 million or £7 million a year from DFID, specifically working in Latin America. Even those INGOs did not really have any clear idea of how this trust fund money channelled through the World Bank and the IDB was being spent. It was only when that ODI evaluation came out that we had some idea as to what was going on. A key recommendation is that there be greater transparency around the trust funds and that has to happen given that DFID, by its own admission, is now the largest contributor to trust funds. In 2004, there were 800 trust funds in the World Bank on which there was no detailed disaggregated information at all. It has been very difficult to find out what is being funded. Even if you go to in-country IDB and World Bank staff, they do not necessarily know about these trust funds. The ODI evaluation did flag up very poor

²⁴ Public Service Agreement

²⁵ Partnership Programme Agreement

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communication between what DFID was funding via trust funds and what work it was doing via secondees, etc., in Washington and what was happening via the decentralised funds and then what was happening again with the remaining bilateral money that they have. It is really not very joined up. That is the issue, perhaps more than duplication, it is not joined up and there is a lack of transparency. That is much more of a problem now that you have this hands-off approach and this money going through these different channels.

Q109 Jim Sheridan: I am somewhat concerned that you say there is no transparency, or very little transparency. I certainly hope that DFID take what steps are necessary to rectify it. Given regimes like we have in Bolivia, is there a possibility that money could be skewed elsewhere?

Ms Collinson: There is a broader issue to raise. You talked about the World Bank working in political environments in fragile states. We have had some fairly major political upheavals in Latin America and certainly in Bolivia and Nicaragua it is very unclear how their relations with international co-operation are going to pan out. There is quite major antagonism, certainly in Nicaragua, between the Ortega Government and donors and IFIs. In the context of the Paris Declaration and the emphasis on national ownership there is a basic question about whether this is the best way of spending your money, i.e., via multilateral institutions, not always clearly aligning what they are doing with national plans. That is even more accentuated in situations where there is this commitment to promoting national ownership but then you have governments who are quite ambivalent and antagonistic towards, say, the World Bank, and are saying, look, you donors have drawn up this Paris Declaration and you are supposed to be promoting national ownership, why are you not engaging with us and funding us to do this work rather than channelling the money via the World Bank or the IDB.

Q110 Ann McKechin: Could I ask about the IDB, because we did meet them when we were in Washington a couple of weeks ago. They were described by the US Treasury as dysfunctional. Do you agree with that description?

Ms Collinson: There are major upheavals going on in the IDB at the moment. I am not in a position to talk in detail about that because we were looking very much at what was happening on the ground in Latin America. The ODI evaluation says that because of those major upheavals, this is a good time to try and influence the IDB, so it could go either way.

Q111 Ann McKechin: The reason why I asked is that they thought it was dysfunctional because the borrowers have a majority share and it is only the African Development Bank which shares that characteristic, which they also described as dysfunctional. Would you not accept that the development banks should be borrower dominated,

rather than lender dominated? Do you think that is more likely to show the priorities of developing countries in its programme?

Ms Collinson: Yes, that is a principle that NGOs would generally share.

Q112 Ann McKechin: So why then do you think it is so off track? I have read your presentation but I cannot see one specific example of where you have said it has come out with a policy which is not in keeping with civil society involvement, not in keeping with appropriate development, because one of the issues they discussed with us was their investment in cash transfer systems which have been one of the most successful social programmes in South America in alleviating poverty. But, yet, you do not mention that in your report. Is there something you have not mentioned here?

Ms Collinson: I can talk about Bolsa Familia, I can talk about the IDB. I am not an expert on the internal workings of the IDB. I do not know if others want to comment on that. There are complex political issues behind the fact that on the one hand the IDB, yes, has a majority of borrower shareholders, and on the other hand, is not necessarily performing in the way that one might one want it to in terms of poverty reduction, etc. That has to do with the political and macroeconomic influences in Latin America and where power lies; you are talking about the Washington Consensus, which has had a major hold on the continent for 20 years and has dominated the macroeconomic policies of the IDB and the World Bank. How those have managed to get a hold on those institutions is a bit more complex.

Q113 Ann McKechin: It does seem to be ironic that Washington thinks the Inter-American Development Bank is actually dysfunctional because it is not following the Consensus. They say that they find because they are borrower dominated they are able to work more according to the agenda which is required by the borrower. I put it to you that theirs is a different interpretation from what your report states, which does not give me any facts on the ground in your submission. It would be helpful for the Committee to have . . .

Ms Collinson: It is CARE's submission, so I will pass on those comments.

Q114 Ann McKechin: Yes, perhaps it would be helpful to give us some examples.²⁶ The other issue is, how do you think DFID should demonstrate evidence of its influence? It has a 1% share, for example, in the IDB, but we were told that it is very influential in the way that policies are formed because they do work in partnership?

Ms Collinson: We have already said to DFID that if you are going to continue with this strategy of channelling funds through the IDB and the World Bank, you have got to demonstrate that there has been an impact on those institutions. Even in the fairly detailed ODI interim evaluation, there is not

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really concrete evidence. They say that the fact that there has been a secondee from DFID in the IDB in Washington has meant that DFID has had more influence on promoting a greater poverty focus and more social inclusion, in the IDB compared to the World Bank. But we are not really given any concrete details on that.

Q115 Ann McKechin: So you want better reporting?
Ms Collinson: Yes. In the region, the civil society advisory committees that the IDB has have been welcomed to varying degrees although they are fairly limited. DFID has played quite an important role in promoting that kind of engagement.

Q116 Ann McKechin: So, that is the kind of thing you want to see more evidence about?
Ms Collinson: Yes.
Chairman: Thank you.

Q117 Hugh Bayley: It is about one question of Ann's to Helen. As Ann said, the US Treasury thought the IDB was dysfunctional because a majority of the board were from recipient countries. When we asked why they thought that made the Bank dysfunctional, they said, well it means that the board is not prepared to ask difficult or penetrating questions of borrowers, and the temptation is simply to approve a proposal on the basis of reciprocity, that the majority would approve your country's proposal when it came up next. There may be a real problem there, that it is not self-evident that developing countries have a great interest in poverty alleviation. Maybe it is a bad thing for this reciprocity principle to be the basis upon which resources are given. Do you see any merit in the US Treasury's concerns?
Ms Collinson: I am a bit concerned with the way that this discussion is going because (a) I thought we were going to be focused on the World Bank and now we are looking at the IDB, and (b), I have not got the information at my fingertips to look at the pros and cons of having a . . .

Q118 Hugh Bayley: Do either of your colleagues want to answer?
Ms Greenhill: I can come in on that. We need to go back to one of the fundamental principles of development which is that development needs to be country-owned in order to be effective and most development experts and professionals, including most people in DFID, would agree with that principle. We know that when countries have strong development strategies but also have a strong picture of how much aid they are going to get, what they want to use that aid for, what forms they would like that aid in, that is where it tends to be most effective in the long run. If you have institutions where developing countries have a very strong voice, where they are able very clearly to articulate what kind of aid they want, under what forms, how it should be used and so forth, that in the long run leads to more effective results.

Q119 Hugh Bayley: As Ann said earlier, maybe in the previous evidence session, these bodies are banks and the people seeking loans or grants put together a proposal and go to the bank; it is not the other way around. So I agree with you about the recipients deciding what help they need, but that is implicit in the process, that the Government of—I will go to a part of the world I know better—Mozambique, will put in a bid for something which the Government of Mozambique thinks is a development priority. Then, of course, there is a process of negotiation. Surely, that country-ownership principle is fairly well established, whether or not there is a majority of donors or recipients on the board of the Bank?
Ms Greenhill: I do not think it always works like that. What we know from the World Bank side is that often countries will ask for what they know the World Bank is likely to give. We also know that with a lot of both budget support and investment lending, there is very strong involvement of World Bank staff, World Bank funded consultants and so on, in putting together those project proposals. So, it is not simply the case that the country puts together a proposal and asks for funding.

Q120 Hugh Bayley: Good point. What are your respective experiences of co-operation between the Bank and DFID in-country? DFID, when we visit developing countries, invariably tells us that their bilateral relations with the World Bank are one of the most important local partnerships. To what extent do you think that partnership exercises some policy influence on the Bank or constraint over the Bank's policies in that particular country?

Ms Greenhill: From our side, one of the concerns we have is that the whole harmonisation agenda, which is an extremely important agenda—I am not denying that—but what we are seeing a lot is that harmonisation is tending to mean a lot of donors, including DFID coming in behind the World Bank and the World Bank being very dominant in putting together policy matrices, doing a lot of the background analytical work and so on for lending programmes, and DFID then supporting those matrices, rather than directly engaging with the government to get the government to develop their own matrices. We are seeing generally the Bank playing a very dominant role and DFID tending to come in behind that, which is quite a concern, particularly when DFID's conditionality policy, for example, is a good deal more progressive in our view than the World Bank's policy; its policies on gender and other issues also tend to be much stronger than the Bank's. We are seeing them very much as a subordinate rather than an equal or even a dominant partner in countries.

Mr Bell: In a number of countries where we work that is true, that in some places the Bank develops a development agenda that DFID staff might themselves, if they had more time, think was wholly unrealistic. If you look at what has just been agreed in DRC for that country's development progress, it is completely impossible in that circumstance. There are though examples where the partnership works

quite well on project issues on public financial management in Nepal and on ex-combattant issues in the Great Lakes of Africa.

Q121 Hugh Bayley: Can you give us a couple of examples?

Mr Bell: Yes, just to take the example of the MDRP, which is quite a unique and innovative way of working for the Bank. They have joint missions with bilateral expert staff, so a Dutch counterpart, a UK DFID counterpart would travel with Bank staff on a supervisory mission to engage the partner country representatives on the various issues, technical and political, that affects the progress of demobilising and reintegrating ex-combattants in these conflict-affected countries. In Nepal, on public financial management, it is joint DFID-World Bank technical expertise provided to the Government of Nepal to improve the tracking of expenditure—the fiscal space in which development spending can be given. Where I would add a note of caution to what Romilly has said is the issue of country ownership. DFID might have a more nuanced, more politically sensitive conception of it, as you can see this over development governance and democratic politics both of DFID's governance departments produced, which is very different to what the World Bank has to do because it has to act as if it is in a financial institution/client/borrower/grantee relationship. That is where there is the possibility for some tension between the World Bank's approach and DFID's.

Ms Collinson: Can I comment on the Latin American point to reiterate what I said before. It is not just CARE which is emphasising the importance of DFID having a foot on the ground. It was a conclusion of the ODI evaluation where they said “having a ‘foot on the ground’ is crucial to ensure that DFID maintains its leverage on the IFIs”.²⁷ We have found that the ability of the DFID staff in Nicaragua to develop relations with the World Bank and IDB staff on the ground has definitely been limited. There is evidence that DFID has persuaded the World Bank to hold local-level consultations around its country assistance strategy, which was not happening before. You have had not just the IDB and the World Bank staff but also other stakeholders confirming that it was DFID that persuaded the World Bank to include micro and small enterprises in private sector support programmes. You have had DFID funding workshops to improve the World Bank's work on gender and women's economic empowerment, and then, a crucial issue in Nicaragua, persuading both the World Bank and the IDB to engage much more practically on the Caribbean coast, which was more or less excluded from the National Development Plan. It is not just a question of having some kind of presence on the ground because there is some presence in Brazil—there is a small DFID office in Brazil—but compared to Nicaragua there was quite a stark contrast there in Brazil where the IDB and the World Bank had no idea about what DFID was

doing and neither DFID nor the IDB and World Bank staff could identify any particular issue where DFID had exerted any influence. In Brazil, the bilateral programme was closed down. There is a very small team there. Generally the switch has been to a regional approach in Latin America. It is very difficult to understand what this regional approach means. Possibly, it is not very appropriate for engaging with, particularly, the World Bank. As a result of decentralisation, there is a certain amount that you can do to influence World Bank operations at a national level, but DFID is falling between stools because they have closed their bilateral programmes apart from Nicaragua. They do not have the staff at a national level and are supposedly working at a regional level, but the World Bank does not necessarily work at a regional level, so the possibilities for influencing at that level are limited.

Q122 John Battle: If I could ask a question here about agriculture. After years of neglect, there is more of an interest in it and it is seen now as making a big impact on tackling poverty, particularly in sub-Saharan Africa, of course, and the World Bank is expressing a new interest. What strategy should they be pursuing? Do you see them having expertise in assisting subsistence farmers? Where is their speciality, what should they be focusing on?

Ms Greenhill: My summary would be that they should not be pursuing the strategy that they are pursuing at the moment, particularly the one outlined in the recent World Development Report. I agree with you that agriculture has been neglected and needs much more attention from the World Bank, DFID and from a large number of donors. The strategy that the World Bank seems to be pursuing is very much around liberalisation, around involvement of small farmers in global supply chains, much more emphasis on large farms rather than with smallholders. ActionAid's staff on the ground have a lot of concerns about that because we have seen the damaging impact over the last 20 years of a focus on free markets, on liberalisation, which has left many of the small farmers unable to get basic agricultural inputs—seeds and so on—which has led to increases in landlessness and food insecurity and so on. In summary, this is a very important area for donors to focus on but we need a really big shift in the World Bank's strategy.

Q123 John Battle: What should the World Bank be doing? I am not as aware as you that they have been doing that much except the mega scale, high-tech telecommunications, road building that they abandoned in Africa after failing. I have not noticed them doing too much on the ground in terms of agriculture. What should they be doing though?

Ms Greenhill: The main thing that they have been doing is around the content of the policy advice they are giving to governments, and this comes back to the question of conditionality. A lot of the advice gets the public sector out of marketing, provision of seeds, rural extension and so on and their World Development Report is suggesting a continuation of that approach, that there should be a very limited

²⁷ Overseas Development Institute, *Interim Evaluation of DFID's Regional Assistance Programme For Latin America*, January 2007, p 7

role for states, only in providing an enabling environment for the private sector. The World Bank's own evaluation unit has shown that simply providing an enabling environment is not enough. The private sector has not come in, particularly with very small family-run smallholder farms.

Q124 John Battle: So should the World Bank turn itself into the Grameen Bank?

Ms Greenhill: The first thing the World Bank should do is stop putting pressure on governments to withdraw their own role. It should encourage governments and work with governments, so that governments have a much stronger role in the public provision of those areas. And it should have much more emphasis on supporting the smallholder farmers as opposed to the big corporations and trying to get farmers involved in the global supply chain.

Q125 John Battle: I am looking for models to see what it might do, as opposed to just define policy. Should it become a *Crédit Agricole* which set off a roll of credit unions, for example, that flourish in the West Indies—as it used to be known—and certainly in France and Francophone Africa? The Grameen Bank is another example of small credit. Should the Bank split into parcels of money? How would you see the investment model of the World Bank working? That is what I am trying to seek out.

Ms Greenhill: Well, again, it comes back to this country ownership question because I do not think the World Bank should be going into any country saying, ok, we are going to do x, y and z. What the Bank should be doing is supporting countries to develop their own strategies to support smallholder farmers and particularly women, because obviously farming is a very important issue for a lot of women. It should be providing some of the support that countries need to develop those policies.

Q126 John Battle: If I were to push you hard, in the 40 to 50 failed states, how many of their country anti-poverty strategies define it in those terms? That is the problem.

Ms Greenhill: For me, though, if you have got a failed state, the answer is not to come in and start trying to do your own thing as a donor. If you have got a failed state, the first priority—Edward would probably agree with me on this—is to try and see how you can make the state work better and support those public institutions to deliver those services. Only in very extreme circumstances of war or conflict should there be direct intervention.

Q127 Chairman: Bob Zoellick has said “accelerated growth”, as in agriculture, “requires a sharp productivity increase in smallholder farming combined with more effective support to the millions coping as subsistence farmers, many of them in remote areas.”²⁸ That sounds exactly like what you are asking for?

Ms Greenhill: But if you look at the detail in the World Development Report, it is still very much about this enabling environment point. There is still a very strong emphasis on the private sector and in trying to get smaller farmers engaged in global supply chains. That is the thrust of the World Development Report, and that is something that we are quite seriously concerned about.

Q128 John Battle: DFID working with the World Bank—this Committee pushed DFID to re-engage with agriculture—in our report five or six years ago—we put it on the agenda and got a good and positive response from DFID and from other organisations. Where would you see DFID's approach on agriculture then through that prism of the World Bank? Perhaps complementing the World Bank, or pushing the World Bank, or telling the World Bank to get out? How would you see DFID?

Ms Greenhill: Again, the area where DFID has a much stronger set of policies than the World Bank is really about this ownership question. They are generally much better at listening to countries and supporting countries to build up their own strategy. Where both DFID and the World Bank need to do better is in listening to the smallholder farmers themselves, particularly women to whom farming is extremely important and whose voices often get lost in this whole debate. Both DFID and the World Bank need to be going out and engaging, and this relates to the staffing questions that we have already been discussing.

Q129 John Battle: It also relates to the men who run the countries in which those questions might be asked.

Ms Greenhill: Sure, but it is actually getting the voices of the people that are poorest and most marginalised who tend to be women.

Q130 John Battle: You may meet opposition if you go to that capital city where the politicians who are men say, that is not our strategy, we want the big boys in and the big projects and the rest of it, in order to get our votes in.

Ms Greenhill: There are two things here. Firstly, it is about countries determining their strategies and ultimately governments are responsible for doing that, but you have also got to make sure that people who are affected on the ground have their voices heard at the national level. For me, the role for DFID is both to take what the government is doing seriously and really work with the government, trying to make the government work more effectively, but also make sure that those voices are heard and provide the support that is necessary for those voices to be heard.

Q131 Chairman: Thank you. Just a small anecdotal example. When we were in northern Afghanistan, we were in a village where they had been discouraged from growing poppy and had switched to growing melons. But they did not know anything about growing melons and they were being affected by fleas—some melon flea or something—and they said

²⁸ The World Bank, *Agriculture for Development*, 2007, p xiii

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“nobody is there to tell us or advise us what to do.” Is that not a role—whether it is in the public or private sector, but frankly these people cannot afford to pay for it so it would have to be bought from the private sector by somebody. Is that not a role where both DFID and the World Bank could be providing some practical help? Or when we were in Malawi, there was a real problem because people wanted to grow maize everywhere, regardless of whether it was the best crop, or the most appropriate circumstances, and were not interested in growing alternative crops. That is the real difficulty when the country only wants to grow one crop and it is the wrong crop or not the best crop. There has to be an interaction, does there not, which tries to guide people even if it does not push them or demand them or force them?

Ms Greenhill: At the local level, both of those examples are symptomatic of the lack of agricultural extension services and again, that comes back to the heavy focus on simply providing an enabling environment for the private sector, and the private sector will fill the gap. As I mentioned, the World Bank’s own independent evaluation group has come in saying that, actually, no they have not filled those gaps. There definitely is a need for advice and assistance to small farmers at the local level but it is the governments that need to set those strategies in place to make that happen. To go back to the point I made earlier, we know that if donors come in and push things that do not have ownership at the local level, they do not tend to be effective.

Mr Bell: I would just like to give an example of some worthwhile projects on coffee reform in Burundi. Here you see again why you need to nuance this issue of ownership and leadership so much. The World Bank engaged with the Burundian Government to try and liberalise the coffee sector because if you control the coffee, you control the power, you control the money. The Government has sold the entire crop to a New York broker, one Burundian that connected to the elite. We have been trying to work with local confederations of coffee growers.

They cannot pull up the coffee plants because it is against the law. They cannot engage in other types of production, so the World Bank is on the right track in trying to give people choice and make it more of an open access type of economy, but the way that they have to engage with the Government means that they are up against elite’s capture interest. You have to go through the process of engagement participation extremely slowly and make sure that as a staff member of the Bank you are not conditioned by your own timetable in headquarters about what you have to achieve within a year. You have to work through the process slowly to make sure that reform is sensitive to the context. There are all sorts of competing priorities.

Chairman: Thank you very much indeed. I am sorry it has been rather a disrupted and consequently longer evidence session, but votes do happen although we were not supposed to have them this afternoon. Both of these sessions have given us quite a lot of evidence to evaluate and consider in our report. It is extremely helpful. If you have any thoughts after you leave here that you think you want to reinforce anything you have said or provide some supplementary factual information to reinforce it, that would be fine, please communicate directly with us.

Q132 John Battle: Sorry to interrupt. Have we got the full reports on Latin America?

Mr Collinson: Did the Committee members get copies of the synthesis report? There are summary chapters of the research in each country in this synthesis report and I also have the full reports of the country research but they are in Spanish and Portuguese. The Brazilian one is fascinating but unfortunately it is in Portuguese. However, most of the key points are in the Brazil chapter in the synthesis report. I will send in some additional points about this issue of national ownership because it came up quite a lot in our research, but I will do that in writing.²⁹

Chairman: Thank you very much, all three of you.

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Members present

Malcolm Bruce, in the Chair

John Battle
Hugh Bayley
James Duddridge

Ann McKechin
Mr Marsha Singh
Sir Robert Smith

Witnesses: **Baroness Vadera**, a Member of the House of Lords, Parliamentary Under Secretary of State for International Development, **Mr Mark Lowcock**, Director General, Policy and International and **Ms Sally Taylor**, Head of the International Financial Institutions Department, DFID, gave evidence.

Q133 Chairman: Good afternoon, Minister, and to your team in front of us again. For the record, if you would introduce the team?

Baroness Vadera: I think you are very familiar with Mark Lowcock; he is Director General and Sally Taylor is the head of the International Financial Institutions Team.

Chairman: We have two members who have a declaration of interest. Robert Smith.

Sir Robert Smith: I should declare my interest as a shareholder in RTZ and in Shell as relevant to this inquiry.

Hugh Bayley: I should let the Committee know that I am a member of the Executive of the Parliamentary Network on the World Bank (PNoWB).

Q134 Chairman: Thank you for that. We had a letter this week from the Secretary of State regarding the directors of the World Bank and the IMF¹ saying that the government has decided that in future the UK will have a full-time Executive Director of the Bank and a separate full-time Executive Director to the IMF but will retain a single office “which will enable us to continue to take a consistent approach to handling issues that arise in and/or affect both institutions.”² I am sure you will be aware that I had informally raised this with the Secretary of State, but when we were in Washington we raised it formally both with the UK delegation and with the World Bank management. The UK delegation robustly defended the merits of the status quo and the World Bank diplomatically took the view that it was entirely a matter for the UK to decide how to deploy its rights and responsibilities to the Bank, although I think in past times they have suggested when the UK government has been a little bit chiding of the Bank or the accountability of the Bank that it was something that the British Government might wish to look to when they take up their full time role. So could you give us an indication of what led to this decision, what were the factors that influenced it and when it will take effect?

Baroness Vadera: It has been something that people have talked about over time and it has always been a balanced decision. On the one hand the view that was taken thus far, which I think was for those circumstances pretty much the correct view, was that

there is a merit in having a joint ED³ and in particular it enhanced the influence of that ED on both boards, and certainly from my previous experience I saw that there was a significant impact, for example in the IMF, in its understanding and the influence we had on its understanding of the situation of low-income countries in particular. So there was the unique strength that came from that and it was only us and the French that had that position; but then it was always a trade-off between having people who were able to focus entirely on Bank business. I think over the period when it came to the decision about the funding it was again a moment to reconsider where we were significantly increasing our funding. We were asking of the Bank quite a lot of things in terms of new challenges, things that you have talked about in the hearings here on climate change, but also on certain reforms within the Bank that actually, given the funding we were providing and given the amount that we were asking of the Bank, the trade-off was such that we should move to a separate ED. But because we want to maintain the advantages that we have had so far we have decided that we should have it as a joint office to maintain that level of unity and coordination that exists currently, and giving us a joint voice which gives us quite a unique strength, I think.

Q135 Mr Singh: I think we all welcome this move but given the huge increase in contribution and rating to the IDA⁴ and given that that is one of the reasons, I suppose, that we are having a full-time Executive Director, why are we not increasing the staffing levels in the joint office because presumably there will be a greater workload now?

Baroness Vadera: I would not necessarily agree that there would be a greater workload in the sense that the Bank Board only meets the number of times the Bank Board meets. We were looking at the ED very much in the sense of somebody who was focused, somebody who could talk to, for example, the President of the World Bank, and that was really much more behind our thinking. Mark, would it be true that we would as a result increase by one?

Mr Lowcock: Yes, that is correct.

Baroness Vadera: The jobs will be increased by one because that is the new ED.

¹ International Monetary Fund

² Ev 59

³ Executive Director

⁴ International Development Association

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Q136 Chairman: So we will still have a substitute, will we, for each?

Baroness Vadera: The Alternate for the Bank ED will be somebody from the Treasury, which is another way of maintaining that cohesion that we wanted to keep. The Alternate for the IMF ED will remain from the Bank of England.

Q137 Sir Robert Smith: But what is the rationale for not taking up the full complement of Bank-funded policy advisers?

Baroness Vadera: I think that the office believes that it is not just covering the ground but is considered to be a leader in the way it covers the ground, so I do not think it feels the need to have them, but I do not know if Mark wants to add anything to that?

Mr Lowcock: No, that is exactly right. We think that the team we have put in place is the right team for the role and of course each office for each shareholder is paid for from the budget. So one thing that we are also sensitive to is the overall cost to the board, which, given the number of Chairs and the size of each office, is a significant issue.

Baroness Vadera: To add to the question that Sir Robert Smith is asking about, how it will be done, there will be a process of competition for the appointment of the ED.

Q138 Chairman: So when is this likely to take effect?

Baroness Vadera: Ministers will obviously not be involved in the process so again maybe I should suggest that Mark answers, but there will be a process kicking off for the appointment of the ED.

Mr Lowcock: We will advertise it very soon. Because of the seniority of the post we will ask the Civil Service Commission to be involved, and then we will select somebody and it will depend when that person is available. My best guess is that by the summer at the latest we will have a new ED in place.

Q139 Chairman: For clarity, does that mean the existing Directors in post and sub-Alternate will have to apply, or what will that mean for them? I should make it clear that the Committee had no criticism of the people in place; it was the mechanism of the role. So what effect does it have on them?

Mr Lowcock: Caroline Sergeant, who you know, who has done a terrific job for us as the Alternate, in fact would have done four years by this summer. She was planning in any case to come home this summer, so that means that the two new posts, the Director post and the Alternate post would need to be filled then anyway.

Q140 Chairman: That is helpful. I think the Committee likes to feel that we had some influence on this; there certainly was an awareness that we were focusing on it and what the Secretary of State has done, I think, is adopted a recommendation that we have not actually yet made. We regard that as a pre-emptive strike.

Baroness Vadera: I will pass that on to the Secretary of State!

Q141 Chairman: Going back to the overall situation, you have just announced the IDA 15 contribution of £2.13 billion, and again on a personal basis if I can thank the Secretary of State for his courtesy in phoning me on the day to tell me that was the case, which was helpful. That is a 49% increase on IDA 14. What were the factors that determined that level of increase, which is clearly very substantial and we understand in dollar terms makes the UK the largest single bilateral donor to the fund.

Baroness Vadera: Yes, it does in dollar terms, although I should clarify something a lot of people—particularly NGOs⁵—who write to us talk about us being the largest shareholder, which is obviously not at all the case. We looked at the spending settlement that we had. We had certain factors to take account of including what we had to do in terms of our bilateral programme. We had certain other replenishments coming through at the same time—the African Development Fund and the Global Fund to fight AIDS, TB and Malaria (GFATM)—and we took a view overall in terms of the increase for a number of reasons. The first is that we do believe the Bank is one of the most effective ways we can spend some of our funding. In many senses it is the glue in the system of development. It is an institution that has the ability to do certain things that other institutions do not—heavy lifting around health systems and education systems and working with governments. It has a geographical spread which nobody else can quite match; the IDA covers 81 countries now. And the role that it plays in terms of global public goods and all of those factors are very important. It is considered—and we considered and evaluated it—to be an effective organisation. But I should also say that the proportion of DFID's DEL⁶ that is going to IDA is going to stay roughly the same as it is now. So, proportionately, it has not increased in quite—

Q142 Chairman: It is just a share of the overall real increase in DFID's funds.

Baroness Vadera: The share of IDA in DFID's funds has not really radically increased at all.

Q143 Chairman: I had an exchange with the Secretary of State in the House about the contribution that DFID is making through multinational agencies and what it is doing bilaterally, and of course fashions come and go as to whether we should do more bilaterally or multilaterally, or whatever. The Secretary of State's response to me was, "Surely you do not object to using multilateral agencies as a vehicle and the importance of their role" to which the obvious answer is no, of course I do not. But the question I was asking is, what assurance can you give us that this increase is based on an objective assessment of the best way to spend UK development money as opposed to a convenient way of allocating rapidly increasing resources, which your Department uniquely is currently enjoying in comparison to other departments? You can understand the charge

⁵ Non-governmental organisations

⁶ Departmental Expenditure Limit

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may be, “You have all this extra money. How the heck are we going to spend it? We will give a great dollop of it to the World Bank.” How do you respond to that?

Baroness Vadera: In the first place, as I said, proportionately we have not in fact increased it at all, but we do have a system of surveying the effectiveness of multilateral institutions—that is on the website, we have published that and the World Bank ranks the highest, if not amongst the first or second highest, and that is very important to us. We have also had an assessment of our objectives in what we are trying to achieve and if we look through what we actually managed to negotiate, which will be published shortly in the Deputies’ report, from the replenishment round, it very much matches with what we are trying to do. One of the key issues is around fragile states. We agreed and negotiated that there would be an increase in the allocation within the IDA to fragile states; that they will allocate more staffing resource to it, including in-country; that they will respond by doing conflict analysis better, and we think that is something that fits with our objectives, as the White Paper shows, and that was very important to us. Second, we know that Africa obviously remains a huge focus, and about half of IDA’s funding will go to Africa. But also one of the most important things to us this time was to try and effect the change within the Bank around what we call decentralisation, which really significantly increases the effectiveness of the Bank and therefore of the whole system, because increasing the effectiveness of the Bank actually has a knock-on effect—it leverages other donors, not only in terms of their money but also the way that they actually behave. So we secured, for example, a commitment that they would increase the number of staff, internationally recruited staff that were going to be based in Africa, by 50% and that really has a very serious impact because it has an impact of course on conditionality and doing impact assessments and understanding the local context and being able to speed up the disbursement, so it has a very significant impact and it helps in harmonisation. So it met all of our objectives and that was essentially the assessment that we made.

Q144 Chairman: That is a fair answer. The final point on this one is that you gave us your own memorandum in which you make a number of comments on the World Bank’s performance and the internal approach, but it has been suggested that you have not actually shared this as widely as you might; in other words, how you have made your assessment of the World Bank has been done more in-house than externally. The Bretton Woods Project said the process analysis behind your decision lacked transparency. First of all, do you accept that there is any substance to that, and is there any more that you could or should do to make clearer what you were doing? You have given a fair answer, but nevertheless in detail one wants to know what are the objective criteria and how they are done. Your summary paper just makes statements, “They are doing all right on this and that”, but you

have not said how you came to those conclusions. Taking the fact that it is the same proportion it is still £2.13 billion of UK taxpayers’ money; should there not be a little more public transparency of how you arrive at that conclusion?

Baroness Vadera: I guess I would say I was a little bit surprised by that when I read it in the submission. We published beforehand—and in fact we are the only donor to have done that—our effectiveness analysis of each of the multilaterals and it is on our website. We are quite unique in having done that, and other donors are in fact looking at the method that we use to assess that, and that was on the website. The World Bank and scored quite high. We made clear our objectives beforehand around decentralisation, fragile states, the climate change agenda as some of the top priorities of what we wished to secure from the Bank, and that was made clear ahead of any decision and indeed any discussions. We then had a series of discussions over the period in the negotiations for the replenishment and then there will be the Deputies’ report that will be published that will show what actually has been agreed by the Bank in response to those.

Q145 Chairman: That is still to come?

Baroness Vadera: There is a draft that is certainly available, including to the Bretton Woods Project and others and then the final version is going to be published shortly.

Q146 Chairman: That is something that might be made available to the Committee before we conclude our report?

Baroness Vadera: Absolutely, yes.⁷

Q147 Hugh Bayley: Overall, IDA 15’s spend increased by about 30% over IDA 14. You mention an increase of staffing in Africa by 50% or so; how reassured are you that the Bank has the capacity to effectively use a 30% increase in IDA funding?

Baroness Vadera: The fact that we used as one of the objective criteria that we wanted for decentralisation and we wanted a focus on fragile states, including resources and capacity in fragile states, has been our concern and we believe that we would at least secure the commitment to do that, and this will be reviewed going forward. I think that overall it would be fair to say we believe the Bank has probably the most capacity of any international and multilateral institution currently. For example, when we were discussing our increase in replenishment for the African Development Fund, which was 100%, that was one of our key concerns and that is what we spent most of our time negotiating with the management. So I would say that we are reasonably comfortable that we understand their commitment to the changes and the reforms that are needed to have that capacity and we will be continuing to review that.

⁷ The Final Report is expected to be made public the day after it is discussed by the World Bank Executive Board—that discussion is scheduled for 28th February. A draft report was placed on the World Bank website on 6 November for comment by Civil Society Organisations.

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Q148 Hugh Bayley: We met quite a number of the Vice Presidents while we were in Washington DC, and I think it is a view shared by my colleagues that we felt that the Vice Presidency of the Directorate in charge of Africa was not as clear about policy and as focused as you might want. So you are putting more resources into the field, but given that there is a larger increase in funding, half of it is going to go to Africa, Africa is a British development priority, are steps being taken to strengthen the leadership on the Bank's Africa region?

Baroness Vadera: I am sorry you felt that about that particular individual but you will be aware of course that subsequently a Managing Director has been appointed for Africa, who we respect and have some considerable experience working with, who is Ngozi Okonjo-Iweala, who was the Nigerian Finance Minister and is very well-respected all over the world. She not only has a track record of reform, as we have seen in Nigeria under very difficult circumstances, but also I think because she used to work at the Bank she has a very clear understanding of the Bank's systems and what needs to change. What we are particularly pleased with is that she understands some of the weaknesses of the Bank, having been on the other side of the fence, in particular around the issue of decentralisation and having Bank staff on the ground, around harmonisation, around conditionality—these are some of the areas on which she is very focused, in fact. I talk to her quite regularly. She has asked, for example, for DFID to share with her our way of incentivising of staff in terms of decentralisation because she has got to the heart of the issue really quickly, which is, “I understand what we need to do but the point is my incentivising staff to actually want to be in Africa and how do you do that? I would like to see how DFID does that because DFID does that better.” So we have written a paper for her, which I have just sent to her today. So we are quite comfortable with that. I would also say about Obi⁸ that she does have strengths and I think working with Ngozi, who she knows quite well, they would make a good team because she has certain different types of strengths that may not have come through in the discussion of the policy and strategy.

Mr Lowcock: Could I just add on the resourcing side that the Bank is increasing the share of the overall resources it has, which is going to Africa, and for us that is an important thing that is happening, including, above all, overseas.

Q149 Hugh Bayley: Given that the UK will be the largest contributor to IDA 15 do you think that that means our leadership role within the board changes and, if so, in what way?

Baroness Vadera: I think many would say that we possibly play that leadership role as it stands now. I think these things are qualitative assessments and are quite difficult. I certainly have a sense from my experience of travelling in-country that we have a very close relationship with the Bank on the ground and they consider us as a kind of primary partner. I

certainly have a sense from talking to people in Washington—and I understand that you yourself saw President Zoellick and he talked about the kind of leadership role that we play and in the board I am aware, from my other historic experience, that we are considered to play a leadership role. So I am not sure that the formality of moving to becoming the largest contributor will have a radical difference. I can understand the importance of the symbolism of it but I am not entirely sure how it will change, given that we already have quite a significant position.

Q150 Chairman: It was stated to us more than once that “money talks” in the World Bank.

Baroness Vadera: I think they were lobbying, possibly!

Q151 Hugh Bayley: Finally, what can you tell us about the commitments made by other donor countries to IDA?

Baroness Vadera: The one that has the most impact is obviously the United States and that was a 30% increase, which I guess given it is the largest country in the world it is perhaps okay, certainly compared to the previous replenishment round. We have a table, which I am very happy to send you if you have not already seen it, which shows an increase from France, which is about 34%.⁹ We have a couple of new donors, which is very interesting; we have China and Egypt. We have Spain making a very significant increase. So there are some quite interesting changes. The Germans, given their budgetary situation, about 21%, Japan at 31%; so I would say that they have tried to keep apace, certainly.

Q152 Mr Singh: You have touched on the issue of the World Bank being an effective multilateral development institution, and the Secretary of State said it is “the most effective multilateral development institution”.¹⁰ What hard evidence is there to support that assertion? What do you mean by “effective”? Is it an effective, efficient bureaucracy; is it effective in terms of outcomes; is it cost-effective? Will you share with us why you value the World Bank so much because in context the civil society criticises it quite severely sometimes in terms of outcomes on the ground?

Baroness Vadera: I should possibly take the point about civil society first. We should try and differentiate between disagreement about policy and effectiveness. Sometimes they are the same thing and sometimes they are not the same thing and a lot of civil society disagree with certain elements of Bank policy. I was talking about effectiveness in terms of the survey which is on our website and we have four specific things that we measure, that we measure across the piece; I think that doing it comparatively is much more important than actually doing it on its

⁹ The table is contained in the IDA Deputies Final Report which is expected to be made public the day after it is discussed by the World Bank Executive Board—the final discussion is scheduled for 28 February

¹⁰ “UK to give record level of support to fight global poverty”, Department for International Development press release, 14 December 2007

⁸ Obiageli Ezekwesili, World Bank Vice-President for Africa

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own. The first thing it talks about is the effectiveness of achieving results, where it does rank the highest; then we talk about the partnership approach where there is some room for improvement, which is possibly the one with which the NGOs have the most issues. Then we talk about its strategy and its overall approach. So we have a different matrix of measures and we measure each of them. The Bank overall scores highly, which is why the Secretary of State made the comment about it being the most effective. There is the second issue, which is do we then agree with what its objectives are, what it is trying to do, and this is effectiveness in terms of what it does, and we felt and assessed that it achieves for us—it is the institution that is most effective for us in achieving what we want it to achieve, which is to be this glue in the system to leverage other donors, to leverage other behaviours, to make changes. It is the most transformative thing that we could do. We could spend the money ourselves and the value we would get would be affected because I believe that DFID is *the* most effective institution multilaterally or bilaterally, but what we need to do is to leverage others in and that is something that we can do very effectively with the Bank. So I guess we would take the view that those are the two assessments. There are criticisms—and I know that you have had them in your hearings—around partnership, country ownership, conditionality and gender—and there are various things. Frankly we are not funding the Bank as being absolutely where it needs to be—in fact, what we have spent all of our time doing is trying to focus on its reform and its improvement, but that should not detract from the fact that we think that this is the best way we can spend that money.

Q153 Mr Singh: Do you look at all at the failures of the World Bank in terms of its programmes and if DFID does look at those failures how do you feed the lessons into the World Bank?

Baroness Vadera: I sometimes feel that we spend more time looking at its failures than we do at its successes. Obviously the Bank has its own systems for looking at its reforms and failures, and there are systems and the Independent Evaluation Group looks at policy areas, central areas or picks certain things to look at. We then look at the findings of that and we really do make quite a strong push at the board level and at the shareholder level in terms of changes and reform. There are things that it investigates in terms of outside complaints, so there is an inspection panel. You will be familiar with the one about the Congo Forest, which we have been looking at. We are very much pushing that the lessons are learnt because, as you know, we are very interested in the Congo Forest in terms of both development and climate change and the centrality in the whole continent, and we need to ensure that those lessons are learnt, so we push on that. Then working on the ground I think DFID is in quite a unique position in certain countries, particularly in Africa—we work very closely with them. I was in Rwanda, Nigeria and Uganda and we have a joint country programme of assessments that are taken

and that is an opportunity again to ensure the lessons that are learnt and to ensure that things are corrected and in place. One of the things that we managed to do in Vietnam recently was to ensure the mainstreaming of gender in the PRSP,¹¹ where, as you are aware, the Bank has admitted it has had some historic failures.

Q154 Ann McKechnin: The DFID policy is clearly based around the Millennium Development Goal targets and, following on from Marsha Singh's question, perhaps I could give you two examples of criticisms about the way the Bank operates and how that conflicts with our own Government's priorities. One is structural in the fact that it is a bank, it is not an aid agency like DFID, and it still operates, even on a soft loan basis, on a commercial basis—it expects loans to be repaid. So to what extent is that a barrier in terms of trying to put across our own policies? The second one, which I am sure you will not be surprised about is its commitment over a long number of years to neo-liberal type policies, the issues of privatisation and free trade. I think perhaps rather than just seeing the generality, one example, I am sure you have seen from Paul Collier's book, *The Bottom Billion* . . . the question of landlocked countries and small island states, whether a general economic policy of free trade is really the one which is appropriate for them, and again how this could possibly conflict with their own targets?

Baroness Vadera: I think this is the structural question about if the bank is a bank, which is a very interesting one. Of course, if you took the concessional element of IDA it is not quite a bank really because the grant element is so significant—the overwhelming majority in fact. There is a view which I think I can certainly see in practice, that if it is a bank in a funny way it does give more ownership to the country, in that the country has a say, it has decided, it has obligations and it is a part of the discussion. Having said that, we would say that perhaps sometimes the Bank ought to behave like a bank a bit more, which would mean it was more responsive to its clients. You would not expect a bank client always to be treated in the way in which we have seen examples, so I would not want to defend the Bank's behaviour in every situation. I think that there are situations that we can see where the fact that it is a bank and there is a loan and it has to be repaid has actually hindered the ability of the country to access that finance; we have seen sometimes a certain reluctance to have loans for health systems, for example. So it does occur; there is certainly that level of conflict that occurs. I think for me, given the level of concessionality in the loan, which would be about 65–70%¹², that actually the

¹¹ Poverty Reduction Strategy Paper

¹² IDA provides aid to client countries with different levels of conditionality. Most IDA funds are provided either as a standard IDA loan (known as an IDA credit) or grant. A standard IDA credit is provided with a 40 year maturity, with a 10 year grace period and a service charge of 0.75%. As a result the grant element of a standard IDA credit is about 65–70%. In addition IDA provides grants to some countries based on their debt levels (approximately 20% of IDA in FY06 was provided in the form of grants and the rest as credits).

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issue is, is the Bank sufficiently responsive to the fact that this is a loan and therefore the other side of the party needs to sign up and have some say in it? In terms of the commitment to the liberal policies, I think there has been a change; I think we collectively—not just DFID—including the whole voice that Britain has, the NGO movement, has had a significant impact on this, and the way I saw it was that the turning point was very much around the PRSPs. They were not perfectly implemented and they are still not perfectly implemented, I am sorry to say, but they were the turning point and the turning point was about giving ownership back to the country, and consulting wider stakeholders. That is the kind of huge victory that I sometimes feel that NGOs do not stand up and claim sufficiently because it is, in fact, in many senses their victory. The issue around privatisation, conditionality, there is a long history around this; there have been changes and we have been looking at this area quite seriously, as you know. You have heard evidence on this; you have spoken to the previous Secretary of State about it. We think that there is now a shift and there has been a reduction in the number of conditionalities, but also specifically they have said that they would not have conditionality around sensitive policy areas and sensitive privatisations, and we have seen that commitment come through in the second review of conditionality. I think a lot of this is about how it is done and implemented. I think their principles and their policy is actually now not that different from that of DFID. The issue is how do they actually implement this on the ground and I think that a lot of that is about who is in the country and therefore we went back to the heart of it and that is why we focused so much on the issue of decentralisation.

Q155 Ann McKechin: You mentioned the PRSP process where they say they have had to actually engage in consultation on the ground. What appears to me as absent is a similar review process after a decision has been put in place where the World Bank, as well as doing their own internal evaluation, is also actively consulting with people again on the ground to see what their reaction has been and what lessons should be drawn from it collectively together. It seems to me that it has made it atone point in the chain but there is not the follow-up further down the line.

Baroness Vadera: The assessment after the event?

Q156 Ann McKechin: Yes.

Baroness Vadera: We were having this discussion the other day. There is an assessment but the interesting thing is that it does not, for example, get back to the board to say, “This is the assessment and this is what we found.” There is a more technical process in the peer review mechanism for the lessons learnt. Asked, do they do that—yes they do, at the management level. But what I find is interesting and I think is correct in what you were saying is that the impetus is on getting the programme right, getting it designed and getting the money dispersed rather than coming back and saying, “Yes, we did it and, guess what, we

only had 60% success.” It is not something that the board tends to discuss very often. I think I would have to agree with that lack of figures. Overall I do think that there has been a shift and I do think that the appropriateness of policy at the design stage, particularly for example in understanding the issues around trade for landlocked countries or island states, is something that has been looked at, and of course a lot of trade policies are not in fact implemented through the Bank but through other means.

Q157 John Battle: To follow on from that and the point that you make about the assessment at the board level, what encourages me about the World Bank is that it is not just any old bank, such as a JP Morgan Chase, for example; it is different, and not just in its methodology of working and decentralisation but in its aims and purpose, because built into it is tackling poverty. One of the tools for tackling poverty would be the Poverty and Social Impact Assessments (PSIAs) and what I would be concerned about is the lack of rigorous, systematic use of Impact Assessments by the Bank. In 2005 in the DFID policy paper attention was drawn to the need for that systematic use, but why is there no reference then to Impact Assessments in DFID’s latest *UK and the World Bank* report?¹³ There is no reference to the Impact Assessment. Can we push that a lot harder as a useful tool?

Baroness Vadera: I do not think I can answer the question why there is no reference to it.

Mr Lowcock: I can tell you there will be in the next one!

Q158 John Battle: I think that is the answer I am looking for! But you see it as a useful tool?

Baroness Vadera: I absolutely see it as a useful tool. There is something interesting going on in the PSIAs, which we started because—and we were party to starting it because we did not think that there was enough done on the subject. We are now finding that it is being done but it is being mainstreamed, which I guess is what was the ultimate objective, but it is not clear and transparent that this is a PSIA and it has been mainstreamed. So there is a huge stream of work that is going on to ensure a more systematic consideration in the design at the right stage and that this is happening. I do think there is some evidence that it is happening. I think what we would like to see as the next stage—and we did push this, it was a part of the discussions around the replenishment and will be in the DFID report as well—what I think is an interesting step to take is ensuring that the PSIAs are done not just by the Bank but they are done by the country, so that they are involved, and there is capacity in the country to make an assessment of the impact of the Bank’s policy. We found, for example, I think in Tanzania that the country was more involved and there were research organisations and I think that makes a radical difference because they do understand the context better. So we are pushing the

¹³ Department for International Development, *The UK and the World Bank 2006/2007*, IFID 04, November 2007

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whole PSIA very hard, but we are particularly pushing for local capacity-building and are actually funding local capacity-building to do PSIA's.

Q159 John Battle: We make a contribution as well to the African delegates to the Bank. I am really concerned about the voice of the developing world now and how that emerges in the Bank. I think DFID makes a contribution to what is called the Analytical Trust Fund. Perhaps you could say a bit more about that, but I am rather more interested in knowing what other ideas DFID is pushing, encouraging, to ensure that delegations from the south are effective; that they are well-informed and they carry some weight in Washington and are not just either tick boxed or patted on the head.

Baroness Vadera: I have to be honest and express some disappointment about the Analytical Trust Fund, which I do not think is necessarily a reflection on the intentions or the people involved. It has done some stuff, for example it has looked at the financial sector policies and it has looked at the whole issue of how the IMF quota voice situation is occurring and gave that research to the African board members. I think it has two problems. The first is that in one sense you cannot outsource, being the client, and the client is the ED and the ED needs to be in an effective enough position to be asking the right question of using the Trust Fund that is available for the research. Secondly, the consortium that provides that support is very research focused, whereas what the two African EDs face is they have to turn up every day and they have to be prepared for quite a wide-ranging discussion about all of the policy papers and all of the decision papers that are in front of them. I think that that is where we really need to focus. Our view is that there are some things that are easier wins than others. If you start to talk about changes in the shareholding and in the voting structures there is, as you are well aware, very little consensus amongst the members; but I think that there might be other things that could be done, including the reallocation of the countries within the board members to make them stronger, and have more capacity and alternates; but things need to be changed on that and we will be pushing for this discussion going forward in the spring.

Q160 John Battle: If I may suggest that maybe in this century we start to look at Africa as a collection of countries rather than one big unit.

Baroness Vadera: Absolutely. I did suggest that it was not necessary for all of the African countries to be in the same constituencies. In fact we were having that discussion this morning that they do not all have to be just between the two African EDs and that some of their conditions might be more suitable to others. I think that people are slightly watching as well amongst the members; they are watching to see how the Fund quota voice discussion is completed, which is anticipated in the spring. I think there is another issue which is quite important, which is that particularly the African members are much more interested in voice in terms of what they experience on the ground. Their primary interest is not in the

more general stuff in Washington; their interest is how they are going to access the finance, what are the terms of it and what the conditionality around it is. I think that part of the voice needs to be strengthened and that, for them when you talk to them, is one of the big things that they want out of the voice discussion.

Q161 Sir Robert Smith: When they met us they did also wonder—and I do not know what your thinking is—whether they should have a third member of the board for the sub-Saharan African constitution.

Baroness Vadera: It would be fair to say that there is also the view that the board, which is now 24, is possibly a little bit unwieldy. I certainly get the sense that the current President has that view. So in the context of restructuring that I do not know where the third ED would be. I think the principle that we are very clear about is that the proportion for low-income countries, in particular Africa, needs to increase. Whether that is two and the rest of them reduced or whether that is three is a slightly separate issue.

Q162 Sir Robert Smith: One of the other things put to us was maybe going down the road of double majority voting where the dominated board has to get the majority and also the other members or by population also has to get a majority. Have you any thoughts as to whether that is a workable solution?

Baroness Vadera: In a formulaic way it would certainly be one way of increasing, whichever way you cut it, the voting rights of the poorer countries. I am not entirely sure that it would be effective because you could quite easily see a situation of gridlock in one sense. I do not believe that there is a huge emphasis from the African EDs or from some of the low-income members for this. Actually what they are interested in is being effective at the board and I am not sure that having that voting structure would actually make them more effective and might conceivably make them less effective.

Q163 Sir Robert Smith: What sort of dialogue is DFID having with the borrower countries as to their priorities for improving their voice?

Baroness Vadera: We have a dialogue at the ED level and we obviously talk to them at the country level. In particular when Trevor Manuel was the Chair of the Development Committee we had quite an intense dialogue because he led some of these discussions. I think that we have possibly too much, waited for them to show some sense of what they want because it is not always clear what they actually want. So we would anticipate some feedback from them and perhaps we should be more proactive.

Mr Lowcock: Can I give an example of what the Minister has just said? I have been in Africa this week and I spent some time with the Finance Minister in the country concerned and, as always, we ask him, "What are the big issues for you?" Actually he said exactly what the Minister said—it is about the way that the institution interacts with us at the

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country level; can they be faster, can they be more decentralised, please; can they be more responsive to us? That is why we have focused on those issues.

Q164 Sir Robert Smith: We had an alternative view from a US official that development banks that do have boards with borrower country voting majorities are, in his words “dysfunctional”. His explanation was that if you are a borrower you are unlikely—because you might want to borrow in the future—to vote against someone else borrowing. I wondered should the World Bank avoid that route. Do you share that view, although maybe not that rhetoric?

Baroness Vadera: It seems to me that the whole thing is a rather caricatured debate if it is put in those terms. At the end of it what is very clear is that they need to have greater voice; they need to be more effective and at country level they need to have a greater say and that, to me, would be the most important thing.

Q165 Chairman: Just as a clarification of that, the official in question said that you would not get one country turning down an application from another country on the grounds that it would be its turn next. But the UK Director, I think of the Inter-American Development Bank, said that actually it was the US Treasury that was dysfunctional and it would not engage effectively with the Bank, and in the case of that bank the borrowers actually were also the majority shareholders. So I think that was the context in which it was being said. Obviously the concern, nevertheless, is the huge imbalance between the shareholders who distribute money and the borrowers who clearly are, the purpose, as John Battle says, which the Bank exists for, but they really do need to have a bigger voice and it is a question of how that is achieved.

Baroness Vadera: I completely agree that they do. We do not share, I have to tell you, the view of some of the members that we have to wait for the IMF committee discussions, which we understand from the Managing Director of the IMF that he would very much like to conclude by the spring meetings. Nevertheless, there is not enough consensus to move us forward. We think there will be an opportunity and we will push hard for there to be an opportunity from spring onwards to look at this issue. Again, I think you could find yourself gridlocked in quite a long discussion if it comes down to shareholdings and voting rights, and so we think that probably a two-phase approach where there will be some early wins for the African communities in terms of their capacity, their effectiveness on the board and some of the reallocations might actually be a good way to go. But, again, we think that this needs to be led by them and we are slightly loath to impose that. But we could not agree more about the fact that this really needs to be handled quickly.

Q166 Ann McKechnin: I want to turn to the issue of Trust Funds because I think on current trends the UK is contributing almost as much to Trust Funds as it is to the IDA. Could you outline from DFID’s

point of view what you consider the benefits of the Trust Funds are; and what are the views of the other major donors about Trust Funds because it certainly struck me that the Global Fund to fight Aids, TB and Malaria, has a great deal of support from the USA but the Trust Fund for Afghanistan is one which they have largely bypassed. I am just trying to find out about the internal political dimension within the World Bank’s view about how Trust Funds are emerging and what their importance is?

Baroness Vadera: I do not think Trust Funds are a very homogenous group. We are a contributor to Trust funds and about a third of our contributions to Trust Funds are in fact to five global aid institutions: the Global Fund, the Fast Track Initiative, the immunisation facility for GAVI,¹⁴ GEF¹⁵ and Debt Relief Trust Fund. So we have those five in that Trust Fund pot, which I think people view slightly differently. We then have about a third going to country Trust Funds, where we think that they can be a very effective pooling mechanism. So in one sense there is a Trust Fund which is about policy and there is also a Trust Fund where actually sometimes the Bank is just being the financial agent, being a bank and a disbursement agent as well. So you have to take them slightly differently. We have found them an effective mechanism for a number of reasons; one of them is around pooling and harmonisation and reducing the burden for countries. Certainly in Ethiopia where we have a Trust Fund that works very effectively; in Afghanistan I can imagine it would be a lot more difficult if everybody was off doing their own thing. So we do think that it has some real merit here. IDA is the largest disperser of concessional lending and you do need to focus areas because it is a very big beast, so actually being able to use a Trust Fund in order to focus on certain areas. We are in discussions, for example, as I am sure you are aware, about climate change and having something around that, which I think is very important. So we do have a view that there is effectiveness, but they certainly do need some reform and there has been some reform. So they started to reject Trust Funds where countries set up Trust Funds so that their nationals can be hired to do certain tasks. That kind of thing has been stopped, and there might be others like that. I think that the US, which you mentioned in particular, is, as you say, a huge supporter of GFATM and of Debt Relief, so I think again it is important for them as well. A lot of the Europeans are interested in Trust Funds because they are interested in harmonisation.

Q167 Sir Robert Smith: One of the suggestions has been put to us is that there are so many Trust Funds partly because it is a way of working around the rules of the Bank and that it maybe takes the incentive away from actually reforming the Bank’s own internal operation. Do you think that it is a distraction from channelling money directly through the Bank and reforming the way the Bank operates?

¹⁴ Global Fund for Vaccines and Medicines

¹⁵ Global Environment Facility

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Baroness Vadera: As I said, when you think about a third going into the big five and then a third going in-country, I do not have a sense that DFID misuses it.

Mr Lowcock: I think there is one category, if I may say so, for which there is a potential concern, which is to do with the administrative budget. We think, for example, that the World Bank should have much greater expertise on gender and social issues and that it would actually be a priority for the \$2 billion a year worth of administrative budget. At the same time it is true that there is a Trust Fund which helps build their capacity on gender issues and we view that as a way to help them get to where they need to get to in the medium term. So that is a particular category that we do look at with a great deal of scrutiny because of the risk of Trust Funds on staffing creating a silo, when what you really need is a mainstreaming across the whole of the system.

Q168 Sir Robert Smith: That is something to watch out for. Obviously in Afghanistan there is quite a strong case because of the strength of governance of the Trust Fund; but is there a danger that it is too easy a model and that countries do not get ownership? Budget support is very much a DFID priority but do you think that the World Bank maybe channels stuff through Trust Funds too readily at a national level?

Baroness Vadera: I do not believe that there has been a situation where it has been used as an alternative to budget support. I would be quite surprised. In the case of Ethiopia, as you know, we stopped budget support for specific reasons; that was a decision that was made, it was agreed to collectively and then we put the funding into a Trust Fund for direct programming and to the social protection programme. So that would not be something that we did by accident, that was a positive decision to do that. I would be surprised if it was being used as a substitute for something like budget support.

Q169 Sir Robert Smith: Finally, with 900 funds, how does that work with donor harmonisation?

Baroness Vadera: We certainly monitor and look through the Trust Funds to which we contribute directly—the spending teams in DFID who work on this do that. I agree that if you end up with six Trust Funds in one country you have slightly defeated the purpose of having the Trust Fund. In-country it tends to be a little less like that.

Q170 Mr Singh: We are given the impression here that DFID is really championing the issue of governance reform of the World Bank and we would like to think that DFID is the champion of governance reform. However, when we were in Washington there was a think-tank there that told us that the UK has been strangely silent on governance reform at the World Bank. How has that perception got around?

Baroness Vadera: What do you mean by governance?

Q171 Mr Singh: The Bank President, the voting shares of borrowing countries, the voice of the donor countries, transparency.

Baroness Vadera: I am sorry if that impression has been created and we will certainly have to change that if that is the case. I think it would be unfair to say that that was an accurate reflection of the reality. We have been, as I was explaining, perhaps a little more silent on the issue around a reform of the voting and more structural reforms because we believed that we wanted to get the developing countries themselves to have a clearer view of what they wanted and to respond to them rather than to impose our view, although I would say that some of our fellow donors on the board would not agree that we have been that silent on the subject. So I think that might be one of the reasons. Certainly we have been extremely clear and vocal, for example on the issue of the election of the President that we wanted to see an open and transparent process. The circumstances of the selection of the current President were a little bit different and speed was of the essence, so perhaps that was not the best time. So it might be that giving that perception. But I am quite surprised by it and I do not think it is an accurate reflection.

Q172 Mr Singh: Could that perception have arisen because of this contrast between the UK and Australia, Canada and Brazil, who we were told have much stronger voices and are more open about the need for reform?

Baroness Vadera: All the countries you name are countries that we speak to and have been talking to quite regularly and we have quite a lot of common dialogue with. Again, I am not sure that that would be accurate that we have been less vocal than they have been. We certainly were involved in the process of the selection of the President the last time; everybody was consulted. We had conversations, we wrote; we contacted, for example, the US Treasury Secretary to ask directly and to ensure that there was consultation. So we were very clear about those issues.

Q173 Mr Singh: I accept that you have dialogue with these countries. Would it be too strong to say that you are coordinating with these countries to achieve reform in the governance of the World Bank?

Baroness Vadera: We think that the most important set of countries are the developing countries rather than the countries that you name, so I would say that for me it would be more important what they wanted and what they thought they wanted out of the process, and therefore we would like to be more responsive to them. I would suggest that they would be a more important group because at the end of it they are the ones without the voice, without sufficient voice.

Q174 Chairman: Is there not an issue of leadership, given that the structure is the way it is, that people, NGOs claiming to speak on behalf of the borrowing countries or those borrowing countries themselves are looking to a country like the UK to take a lead,

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given very politically and very bluntly that the UK approach to development is radically different to the US approach to development, and a very big signal about the character of the World Bank would be given the day that a non-US President is appointed by merit, and I think that is an important part of it. So I wonder whether it is the British government style. Nobody denies that DFID says these things all the time, but when you are in Washington the impression is that you get on with the day-to-day business and do not actually stand up and say that this is a real issue. People are looking to say that perhaps, even though it may ruffle a few feathers, that maybe sometimes DFID should be doing that, even on a day-to-day engagements.

Baroness Vadera: I have not actually known DFID to worry about ruffling feathers in Washington. We made a very clear statement at the time. The Secretary of State at the time and the Prime Minister (the Chancellor at the time) have all made statements and they certainly were not curtailed; those statements were not worrying about the reaction because we thought it was critical and important that there was an open process. I do understand and I do agree it is important and that it is a good signal to send; we, as you know, in fact managed to effect some changes in the IMF process that were a very positive step forward.

Q175 John Battle: The switch to this Gender Action Plan somewhere in the Bank—the new Gender Action Plan, I wonder what you expect of that plan? Will the Bank take it seriously or will it just be a little bit of gesture politics, do you think?

Baroness Vadera: I think it had better take it seriously! I think it will take it seriously and indeed it was one of our asks and I believe one of our wins during the replenishment discussion. They themselves, to be fair to them, have acknowledged that they had weaknesses in gender. Gender, as we all know, is a notoriously difficult issue to mainstream but it does need to be mainstreamed; it does not work if it is something on the side. We have pushed quite hard. We have an undertaking from them on this and it will be a part of the mid-term review of the IDA replenishment as well. They have an advisory council on gender, which Mark sits on, so perhaps he would like to comment on this as well. The Gender Action Plan is going in particular to focus on what the Bank believes is its comparative advantage, which is around economic empowerment of women. So it has worked on those issues and we have seen it already. We have mentioned Vietnam before, but part of the change involved a change of legislation to equalise the age of retirement for women, for example. In Liberia they have started working with the Nike Foundation with adolescent girls; so there is already a move happening. I think in addition to the economic empowerment piece, which I think will happen because it now has this Gender Action Plan, it has this advisory council looking at it, I think it is very important that we continue to work and push for the mainstreaming of gender in the social policies around economic empowerment.

Q176 John Battle: I think I would be disappointed if it became MDG¹⁶ 9, a gender action plan, and the reason is that I have learnt probably this year from our work on maternal mortality, the inquiry we have done there, I am absolutely convinced now that development is about empowering and creating space for women, because the one MDG miles and miles behind all the others is maternal health; and why? Because it is women and it is complicated in the eyes of many men, and it cuts across all the others. I am almost tempted to say that the next Make Poverty History campaign should be women only actually, saying, “This is our agenda, and we are outside.” So on all eight of the MDGs it is women, women, women who pay the highest price, and I wonder whether that could be mainstreamed through the men in the Bank. Do you think it could happen?

Baroness Vadera: I would like to give you an honest answer, which is I am not sure. Would I like to see it happen? Yes. I am just smiling because it is something I bang the table on reasonably regularly myself. I think it is very critical. We do know that in fact this could be one of the ways to solve it—it is the cause of poverty, the symptom of poverty, women’s rights and empowerment issues. So I do think that it is absolutely central and we would really like to see it happen and we have put it very high on our list of priorities for the Bank in terms of a formal action.

Q177 John Battle: In terms of that, if you sharpen that up, if the vision is that women are encouraged to be seen now to be leading and championing the campaign for development and men get out of the way, please, because you are in the way, then can you give me some indications of the kinds of changes, incentives, processes, the kind of staging posts that the Bank will need to put in place to drive that agenda through? Because the men—including me—will make noises as we quietly and slowly waken up to the issue but in fact there will not be those decisive change points built into the policy structures to make a difference in anywhere near time.

Baroness Vadera: I think that you are right. I am going to ask Mark to comment on this because he does sit on the Gender Advisory Council. I am more heartened than I have been because there is a group of women—in fact there is a group of African women in the Bank who I think could be a very powerful voice. There is Ngozi, there is Obi who we have already spoken about; there is also Joy Phumaphi who—I do not know if any of you met her—has been working on some of the social sectors and she understands these issues. So I do think that there is a chance for the Bank to show leadership because there are now women leaders inside the Bank who can do this. Mark?

Mr Lowcock: We completely agree, Mr Battle, with what you have said and the one thing we have pushed hardest as the members of the advisory council is to ask the new President himself to take a personal lead, so that it is clear across the whole

¹⁶ Millennium Development Goal

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of the incentive system of the organisation that thinking about the impact of any Bank issue be it of policy or credit on women and doing that analysis is absolutely integral. We have had an assurance, I think, that Mr Zoellick will take a high level meeting on that topic and set out his vision at the spring meetings and we will be working with him towards that end and follow with him very closely the progress he makes.

Baroness Vadera: I certainly got the impression when he was in India—and it happened to coincide with my visit to India—that he was much seized of this because of course gender issues are a huge problem in terms of India. It is not just the amount of money; it is really about their rights. So I do think he is seized of it. But we have been here before so I would like to continue to push rather to say, “We think we have this and it is going to happen.”

Q178 Hugh Bayley: Robert Zoellick admitted to us that there was a tension between the Bank’s role as a development agency tackling poverty and its emerging role tackling climate change, which we see most obviously in relation to energy projects, but you also see, I guess, potentially between carbon economic growth and international responsibilities and climate change. How do you think those tensions can be resolved and what role can DFID play in enabling the Bank to resolve those tensions?

Baroness Vadera: In one sense tension exists because nobody has quite found the Holy Grail of low-carbon growth. We are much seized of this; it was, as you know, one of our big issues and the Secretary of State has talked about it a lot, the Prime Minister has talked about it a lot. We are currently in discussions with other donors as well as with the Bank about the role it should play—it is going to do a paper that is going to come to the Board. We are also in discussions with it about something that I think could be really very major, which is the creation of, I am sorry to say, a Trust Fund around climate change. As you know, we have committed money for an international window of the Environmental Transformation Fund, which is £800 million and we think that it would be a very good idea to work with the Bank and through the Bank because it would leverage other donors. Other donors have now actually started to come to the same views—the US is very interested and the Japanese are very interested; the Danes are very interested and are going to hold a meeting at the end of the month to talk about the European contribution to this. So the idea is to take the Clean Energy Investment Framework which has created the analytical framework but does not have any financing behind it and to create this climate change fund facility—I do not know what it is going to be called—which would focus on issues around adaptation and forestry as well as energy and low carbon energy growth. Once it has that funding behind it I think it will be a way to resolve what President Zoellick sees as some of these tensions. In terms of tensions I also notice that you have had some evidence to suggest that

somehow the Bank should not be funding any form of fossil energy for developing countries, which I think is not the most just way of conducting ourselves because, quite frankly, it is their choice; they will have their obligations under the international treaties and we cannot deny them this right. In certain countries, for example in Malawi, the market has been coal but 80% of people are without electricity; are we going to turn around to them and say, “You cannot have this,” or “By the way, we can but you cannot”? It is not the most just way of conducting this. So I think that we are attempting to use the investment framework and underneath it have this fund which will, I think, be a very powerful instrument and a very exciting instrument in fact.

Q179 Hugh Bayley: You might characterise some of the environmental bodies who have presented evidence to us as taking a hard-line position that the Bank should not do energy, but I think that there is a more powerful argument that they are making that the Bank’s speciality is development and reducing global poverty and that it should concentrate on what it is best at and some other body or bodies should concentrate on maybe bringing the world back to a low carbon economy. I was talking to Myles Wickstead this morning about something completely different and he mentioned the debate within the government in the run-up to Gleneagles about whether we should have a single agenda item of Africa and climate change or whether there should be two policies. I understand why there were two policies, because you wanted to make it clear to high emitters that this is a policy for them—it is not just a policy in relation to the African policy, I understand that. But if you follow that through you might say that it should be the Bank’s responsibility to concentrate on development and some other body’s responsibility to concentrate on climate change. So why is the Bank being seen as a deliverer of the world’s response to climate change. Why should the Bank have this remit?

Baroness Vadera: I have to say that I was certainly there when we were discussing whether we should have more than two things at Gleneagles. As far as I am concerned development is about the environment. I really cannot see any way that they are not about the same thing. If you look at the impact that climate change is having on Africa, if you look at the impact of the model of development that countries will follow, including developing countries, on climate change they are so inextricably linked I do not see how they are separate. At the end of it we need a bank, we need a financing institution; because it is a global problem we need a financing institution that has a global reach; and we need a financing institution that does development. As far as I am concerned it is a slam dunk to me that that is what we are looking for. It is one thing to have Gleneagles, which is about creating commitments, creating momentum, separating out the two issues, which is

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the perception issue, but we have to operationalise this and there is only way to do that and that is to do it together.

Q180 Mr Singh: You raise the issue about justice; if we tell developing countries that they cannot use carbon to give them energy—and I completely agree with you that we cannot do that—but that cannot take us away from the fact that renewables accounted for only 5% of the World Bank’s energy lending portfolio. So whilst I accept what you say, what are we doing to make sure that the Bank’s lending portfolio on energy spends more and gives more and lends more on renewables?

Baroness Vadera: I think we would agree with you that the target was too low and that the target should be higher; so, yes, I think the answer to that is definitely we need to push them to do that.

Mr Lowcock: In 2006 it increased by 45%, I think, its lending on renewables—the target was 20%. From our point of view that is not such a bad baseline if you think about the future. So they are moving and this is part of the journey.

Ms Taylor: We are expecting them to set a series of targets across the Clean Energy Framework, of which one will be renewables, and we want them to really think about the contribution they can make and to set themselves a stretching target for that.

Q181 Mr Singh: But they can do better, can they not?

Ms Taylor: Yes, they can do better.

Q182 Hugh Bayley: One further thought on climate change: the driver for climate change is not emissions but it is the stock of carbon in the atmosphere and not the flow. Therefore, if one achieves a reduction this year or next year it will have a greater impact on reducing climate change than achieving that reduction in five years’ or ten years’ time. After the success of the IFF¹⁷ for Immunisation, which was tackling a problem where again early intervention delivers greater returns than later intervention, is not climate change a policy area where the IFF has something to offer? Particularly given that some of these climate funds have been launched in are full more resources are needed for them? I know that there is a huge mountain to climb to persuade other countries to sign up to the concept of IFF but in relation to immunisation it has been a great success—I believe it was over-subscribed. Is it not worth climbing another mountain to do something with IFF to bring forward more action earlier and gain the benefits that would accrue from that?

Baroness Vadera: Climate change is the classic case for frontloading. I think this has been influenced by the success of IFFIm¹⁸ and the concept of the IFF. The climate change fund—I only want to call it the climate change fund because I do not know what it will eventually be called—actually has some of these principles in it, or least a discussion in which we are trying to bring in some of these principles, which is

that we should have the private sector involved and that it is actually viable to borrow for this because it has the savings later, and what we are attempting to do is to find ways in which this fund will have the private sector involved. Some of the banks that we have been talking to are interested—and that will give the leverage principle that the IFF has. What is slightly different is who does the borrowing and we wanted a mix of instruments because a lot of these countries who might be involved are actually middle-income countries who could borrow in their own name, as opposed to if it were donors who were standing behind it. So we tried to use the principles but adapt them to what would be a mix of instruments. What we need to do is to find a mechanism where we are working, using the public finance bit to subsidise, if needed, to leverage some of the private sector. So this is a very current discussion about the structure of this fund and how the private sector would be involved, and there are quite a lot of minds focused on it. I think that you will see some of these principles come through. It may not look quite like the IFF for climate change but it will have a lot of those leverage principles.

Q183 Sir Robert Smith: The World Bank is also engaged in middle-income countries. It was certainly put to us that a lot of those countries are borrowing from the World Bank not for the money but for the expertise and knowledge and advice that comes with it. Is that a model that you recognise and, if so, do you think there is any scope in developing an unbundling of the loans and advice and having a bank advice service?

Baroness Vadera: It is certainly the case that in certain countries there is an interest in IBRD¹⁹ loans. In China we have seen that in the education sector they have got involved because they want to use it as a model. I think that we would say that we do believe that IBRD should continue to have a role in the MICs.²⁰ There are some extreme views that they should not be bothering with the lending at all, but we do not accept that. You can see from the volatility of the current market conditions that that would not be the wisest thing to do. When you unbundle it, of course, it becomes an issue of who is paying for the advice and, interestingly, what we have found is that countries would like the advice but they do not particularly want to pay for it. It then becomes an issue about who is going to pay for it and the lending actually gives you the source of income that pays for it.

Q184 Sir Robert Smith: And there is also a view put that the borrower gets the sense that the advice of the Bank and its thought process is going to be that much greater because it has a loan to protect.

Baroness Vadera: Absolutely, although being lender of last resort.

¹⁷ International Finance Facility

¹⁸ International Finance Facility for Immunisation

¹⁹ International Bank for Reconstruction and Development

²⁰ Middle-income Countries

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Q185 Sir Robert Smith: It is, yes.

Baroness Vadera: Yes, it certainly changes the nature of the relationship when there is funding involved.

Q186 Sir Robert Smith: One think-tank put it to us when we were in Washington that the UK was maybe not as involved as it could be in the relationship with middle-income countries. The point was put to us that whilst obviously the country may be better-off if it comes to tackling poverty a lot of the poverty is still in middle-income countries, so the Bank's engagement with those countries is still quite important. There was a concern that maybe the UK was not fully engaged with that work at the Bank.

Baroness Vadera: I think it would be fair to say that DFID's primary focus—at least in our own operations—is obviously very much in low-income countries, we have gone for a 90/10 split in our programmes. We have a depth of expertise and experience and operations in low-income countries that makes us a more natural partner in those countries with the World Bank and we do not have huge operations in certain parts of the world, in Latin America, for example, that would make us a natural partner, and that might give us some disadvantages. But I think in countries like India and China, in certain specific countries that we think will be very central and important and where we do have some presence, I think we do have an involvement. For example, in India, whilst it is, I suppose, a middle-income country there are huge depths of poverty and inequality. We work very closely with the Bank on the ground and we do go into the joint programmes in fact and sit at the table together because there are not many donors in India, other than us and the Asian Development Bank—and they are, I gather, the main donors. In China we have worked with them again and talked to them and we have been influential in getting some of the poverty issues and gender issues and other issues mainstreamed, so we can do some of that. I think at the board level and at the policy level again we have a voice at the board, but I think again we are disadvantaged by the fact that we do not have the spread, so cannot bring the individual experiences.

Q187 Sir Robert Smith: You do not have the external expertise. But it does not mean that you do not think the Bank should, where it can get that expertise from another country, be engaged?

Baroness Vadera: We very much understand and accept and focus in our intervention, and others, on the issues of poverty in middle-income countries where the issue does not become about financing it becomes about inequality and poverty, and that is very much our focus here.

Q188 Chairman: I think it is fair to say that Members of the Committee have been a little exercised, firstly on the disengagement, for example, from Latin America; and secondly, not in terms of money but in terms of advice and support, on the disengagement from some middle-income countries where DFID

policies might even help demonstrate to the governments of those countries how they might alleviate poverty in ways that would be politically acceptable. Is there any suggestion that the staffing constraints are a factor here because clearly the 10% is not a problem in many cases because it is not a requirement for substantial amounts of money; it is the value of having DFID expertise with some programming obviously because you have to have at least a pilot or demonstration projects. Do you sense that DFID is constrained because of staffing from, for example, having an engagement in a country like Brazil?

Baroness Vadera: For me it is very much an issue of are we going to be everything? Are we going to be the World Bank? Are we going to be everywhere and do everything? Some people do not consider us sufficiently focused as it is, involved in the numbers of countries that we are. Really our knowledge base and our expertise is very focused and we are leaders in, I believe, Africa, in fragile states, in certain types of countries that have certain specific problems and our engagement in middle-income countries is very much around that agenda. I think it would not be as simple and straightforward as saying that it is the staffing numbers; it is the fact that we would not consider ourselves leaders in the field of understanding the issues that face a very different country like Brazil from Uganda or Ghana or Mozambique.

Mr Lowcock: If we were to run the thought experiment that if we had more staff where would we allocate them to, I am sure we would allocate them—on my advice anyway, Ministers would need to decide—to exactly the list the Minister has just given, for reasons of comparative advantage, impact. A lot of countries we work in are not over-supported by the international system at the moment.

Q189 Chairman: So it is a comparative advantage point?

Baroness Vadera: I think so, yes.

Q190 Chairman: One of the slight frustrations we have in dealing with the World Bank is that we very often have to ask you to explain on the record what the World Bank is doing because the World Bank will not do it. Both institutionally and practically they do not want to give evidence on the record in public; they say that is because it would be political. And sometimes they say that because there are 200 countries in the world that they cannot give evidence everywhere, but that is not an argument for not doing it, that is an argument for how you control it. Do you feel that this is something that ought to change because there is a real dilemma that the Bank takes our taxpayers' money and other countries' taxpayers' money and it is a major player in the field and yet in a formal way its officials are not accountable in the way that you are. Do you think that is damaging to the Bank and do you think that they should change that policy, and is it something that the British government would encourage them to do?

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Baroness Vadera: We would certainly encourage them to be more open and transparent and we focus quite significantly on all of their issues around disclosure and providing information and explanations for what they do. This is with absolutely no disrespect to this Committee, which is incredibly well-informed, as it happens, and you do have the ability to really understand what is happening, but I think the thing that would worry me the most about Parliaments would be the Parliaments in developing countries where the Bank is very powerful as an agent of change in many cases and the ability of those parliamentarians to be able to ensure that they understand and talk to the Bank, and I think that is also an issue in addition to the one that you raise. So I guess one of our focuses has been on ensuring that they do talk to parliamentarians in developing countries. Mr Bayley is more knowledgeable about this than I. We do encourage the country offices in particular to ensure that they are open and clear and give information and have access and I think that that is another angle to consider in this. In particular, if you do not have the sorts of facilities and knowledge base that the IDC²¹ has in that situation, I think that us helping those countries in creating the capacity of those countries to work with the Bank would be a very important thing.

Q191 Chairman: I suppose you could divide it into two halves—although I would not want to suggest that one half should have preference over the other. We, after all, are a shareholder country and we are now the biggest donors to IDA. There is a really serious issue that therefore to some extent this Committee and this Parliament looks to the World Bank and says, “To some extent you are a client of the UK Parliament and yet you are not accountable to us directly, only through our own government.” At the other end of the scale, whilst I take your point—and I will ask Hugh Bayley to come in on that—that developing countries may not have that degree of capacity and sophistication, that is a kind of a chicken and egg argument, is it not? If you are not going to give them the opportunity, how are they going to learn, and indeed how is the Bank going to respond if it is not put in that situation?

Baroness Vadera: I agree with that. I think it would be helpful to see the Bank more clearly accountable. There is sometimes sensitivity, it has to be said, in those countries by the governments—the administration governments as opposed to Parliament.

Q192 Chairman: That is another legitimate issue.

Baroness Vadera: It is quite complex and I think that in one sense I agree with you that the Bank feels, “We do not want to get involved in this sensitive area about where the accountability lines go in a country”. So they have taken this uniform view, which possibly does create a deficit, as you say.

Q193 Hugh Bayley: It is an obvious point that you should not characterise all parliamentarians in developing countries in the same way—there are some very, very capable parliamentarians who have spent years in government and then become very effective agents for change as back-benchers in their Parliaments. I have seen that in Kenya, I have seen that in Malawi, I have seen that in a number of countries. They would be in a position, I think, to give a strong and helpful steer and advice to the Bank country office, but there is not a process by which the Bank formally engages with them; it is not accountable to them, that is clear, it is accountable to you, to the Directors of the Bank. In March last year at the last PNoWB conference in Cape Town I chaired a meeting when the President answered questions and after a bit of pressing Paul Wolfowitz as it was then undertook to get his Vice President to write a paper about how this relationship of reporting from country offices to a Parliament of that country could take place without implying a relationship of control by the Parliament. I was really quite taken aback when we went to see President Zoellick that the very first thing he raised with us, without prompting from us, was the role that PNoWB could have in enabling this to happen.

Chairman: To put it on the record the PNoWB is the Parliamentary Network of the World Bank.

Q194 Hugh Bayley: There are two things I would like to ask you to commit to. One, to ensure that the Vice President for External Affairs, who I think has this brief, does this work and brings to the board proposals for how a relationship with Parliaments in developing countries could work. Secondly, following our visit, I went under my own steam with my Parliamentary-Network-of-the-World-Bank hat on to take Caroline Sergeant to meet Betty McCollum, Congresswoman, who is now the Chair of the PNoWB board. I think that Caroline is keen to see the Bank seconding somebody to PNoWB to try and work through with PNoWB how its role could be developed. Are those two things that have been reported back to you and are they things that you would welcome, encourage and support?

Baroness Vadera: First of all I just want to stress that I do completely agree about the capability of parliamentarians. Sometimes with the capacity and their resources there is a slight difference.

Q195 Hugh Bayley: Exactly.

Baroness Vadera: On your two questions, yes, I will commit to raising with the Bank that the Vice President does do the paper that was committed. We did get a read-out of your meeting with President Zoellick and Caroline Sergeant has told us about the meeting with Betty McCollum.

Q196 Hugh Bayley: Good.

Baroness Vadera: I think what we would very much like is for PNoWB to bring forward its strategy; that would for us be the best process that would break through this. I guess what I would say is that I will commit to going back and thinking through how we might assist in PNoWB bringing forward the

²¹ International Development Committee

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strategy. What we cannot do is substitute for that or be the strategy or in any sense create it because it really has to come from PNoWB and parliamentarians directly. But we will go back and Sally will speak to Caroline whether there is any way in which we can assist PNoWB in bringing forward its strategy. It needs to decide for itself what its strategies are and how it is going to be active and what its role and remit is.

Q197 Chairman: Obviously we will produce our report in the next few weeks and the flavour of some of it I think is clearly indicated by the questions we have been asking. I think it would be fair to put on the record that during the time we were in Washington we were very well received by the Bank; they facilitated meetings; many people met us and exchanged with us fairly frank views. But I think there were occasions—and there are also occasions when it is nice to have those private meetings because you get more out of people in some ways—when it would have been nice to feel that some of that could have been on public record. In the case of President Zoellick, interestingly enough, the diary allocated 30 minutes to the meeting which I think actually lasted an hour and 20 minutes or something like that, and he obviously just carried on as suited his determination to engage with us. So that is not the point at issue, we had a good meeting and we had a good session. But I think there are concerns, and it

is really in the Bank's interests too that it is subject to criticism. I think there is a comment that is relevant to the NGOs in some cases that legitimate, constructive criticism of the Bank, its policies, its delivery, particularly when it is backed up by facts is useful and valid and certainly helpful for this Committee; but gratuitous criticism of the Bank actually damages public support for aid and development and that obviously is not something that this Committee wishes to encourage. I think as a Committee we found the exercise interesting; the timing was probably fortuitously appropriate. Ironically we had also engaged quite well with Paul Wolfowitz in the past and President Zoellick has indicated that he would be willing to meet this Committee as and when he is visiting London or coming through London, which I hope will happen. So we have a good relationship; but there are shortcomings, I think, in the way that operates in public. Can I thank you and your team for coming in and giving evidence and say that we appreciate that a recommendation we had not yet made but were about to have already been adopted, so we like to think we have had some chemistry on that. And we hope that when our report is published it will be seen to be a constructive and useful one that might help both DFID and the World Bank improve their engagement.

Baroness Vadera: I am sure it will; thank you very much indeed.

Written evidence

Memorandum submitted by the Department of International Development

EXECUTIVE SUMMARY

The World Bank shares DFID's overarching ambition of eradicating poverty and thanks to its extensive funding, expertise and influence is at the heart of the international development system. Evidence suggests that investing substantially in the Bank has a high return in terms of helping developing countries meet the MDGs.

The World Bank Group needs to improve some aspects of its performance and needs to examine how the different parts of the Group can best work together. But overall the Bank is a leading development institution whose success and effectiveness are essential for global efforts, including those of the UK, to make progress towards the MDGs and to tackle specific development challenges such as climate change.

DFID has substantial influence at the Bank. We exercise this through top level attendance at the Bank's Spring and Annual meetings and regular high level contact throughout the year. DFID country offices work closely with the Bank and in some countries, we have developed joint assistance strategies. We use IDA funding negotiations and our contribution to IDA to help secure changes in Bank policy and practice.

Negotiations on the 15th replenishment of the funds of the IDA began in March 2007 and are expected to conclude later this year or in early 2008. The UK is pressing IDA and the Bank as a whole to become more effective at the country level, including through improved co-ordination with other multilateral organisations. We form strategic alliances with EU and other colleagues to help achieve these objectives.

Both DFID and the Bank emphasise that good governance is crucial to successful development and poverty reduction, and to achieving the MDGs. The principal objectives of both organisations are to help develop capable and accountable states to deliver services to the poor, promote private sector-led growth and tackle corruption effectively.

On conditionality there remain some differences. But the Bank has made significant improvements in its use of conditionality in recent years and overall DFID's and the Bank's approach is converging. We expect the Bank to implement effectively the Good Practice Principles on Conditionality agreed in 2005 and the additional recommendations made as part of the 2006 review of their use.

The Bank's transparency has improved substantially over the years, thanks in part to the work of Parliaments. DFID believes that while the World Bank can improve some aspects of its governance, including helping developing countries voices to be heard more effectively, overall it is a highly credible and effective organisation.

THE WORLD BANK'S RELATIONSHIP WITH DFID, OTHER DONORS AND STAKEHOLDERS

Is funding through the Bank an effective mechanism for advancing DFID's overriding priority of progress towards the MDGs?

1. The Bank shares DFID's overarching ambition of eradicating poverty. Last year the Bank committed nearly \$25 billion in aid to low and middle-income countries and is a major donor in sectors such as education, water and sanitation, health and infrastructure. It is at the heart of the international development system and wields great influence. The MDGs are central to the Bank's work. This is reflected in the Bank's two-pillar strategy which focuses on building the climate for investment, jobs, and sustainable growth, and investing in poor people and empowering them to participate in development. The strategy was agreed in 2001 and discussions are underway to update it.

2. Evidence suggests that investing substantially in the Bank—both in terms of our financial resources and our time—has a high return, for five main reasons:

- (i) Bank programmes have a strong track record of poverty reduction, reflecting the quality of its staff, the strength of its internal processes and its commitment to continual improvement;
- (ii) the Bank's advice and analysis help shape the policies and programmes of poor developing countries, as well as those of donor governments;
- (iii) a combination of funding from DFID and the Bank can leverage finance and technical inputs from the private sector on issues such as water and sanitation and clean energy;
- (iv) channelling aid through the Bank and encouraging other bilateral donors to do the same may reduce the number of aid projects, and so the burden on recipient countries;
- (v) funding for the Bank increases our influence within the Bank and so helps ensure that overall Bank spending—nearly \$25 billion last year—will help deliver the MDGs.

3. There are multiple examples of how the Bank has helped developing countries to meet the MDGs. \$126 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 (93–05) helped increase female

enrollment 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 have been made since 2003 helping to stimulate income, employment and economic growth for hundreds of thousands of people, many of them women.

4. DFID has recently assessed the effectiveness of a range of multilateral development organisations in contributing towards the achievement of the MDGs. Four dimensions of effectiveness were measured:

- managing resources;
- managing relationships;
- country/global results; and
- building for the future.

5. Overall the World Bank scored better than other multilateral organisations. Strengths identified included its analytical skills; influence; the robustness of the evaluations of its work; the breadth of issues that it covers; and its internal systems. The Bank needs to improve its performance on some aspects. For example, increasing the number, seniority and authority of staff based in-country would increase the quality of the Bank's work at country level. But overall the Bank is a leading development institution whose success and effectiveness are essential for global efforts, including those of the UK, to make progress towards the MDGs.

Can DFID's priorities in specific policy areas, particularly climate change, be pursued effectively through World Bank funding?

6. The Bank has an important role in taking forward the policy priorities set out in the Government's 2006 White Paper on International Development. Its expertise and convening power make it critical for the success of many initiatives. In recent years, it has played an important part in shaping and implementing global initiatives, such as finding a solution to the problem of unpayable debt through the Heavily Indebted Poor Countries and Multilateral Debt Relief Initiatives. The Bank makes available its technical expertise and resources, for example to enable a successful launch in 2005 of the International Financial Facility for Immunisation. It manages donor resources for several major international funds, such as the Fast Track Initiative for Education and the Global Fund for AIDS, TB and Malaria. And it continues to argue for a new global trade deal which benefits poor countries while providing significant levels of financial and technical support to help developing countries realise the potential gains of increased trade.

7. On climate change the Bank has a key role to play in terms of financing, analytical work and its convening power. It has taken up the call of the G8, made at Gleneagles in 2005, to develop a Clean Energy Investment Framework, working with other multilateral development banks, and drawing in the private sector. The Bank is uniquely placed to challenge the richer countries to act, including on financing, and to help developing countries to play their part in designing an international agreement that helps them both grow and tackle climate change.

8. The UK's £800m Environmental Transformation Fund (ETF) is an example of how we can work with the World Bank to ensure our money has more impact than if we work alone. The aim is to use our funds to leverage funds which potentially are available from other multilateral sources but are not currently accessed by developing countries because the terms are not sufficiently attractive. Together with the World Bank we are discussing how to encourage countries to get onto a cleaner development path. We are also working to leverage billions of dollars which are potentially available on the balance sheets of the International Financial Institutions, but which currently are not being accessed and so cannot be used to tackle climate change and other development challenges.

What are the levers of change and influence that are available to donor states and is DFID taking full advantage of these?

9. The UK is an influential development player in the Bank. This is thanks to our commitment to poverty reduction, the size of our financial contribution and shareholding, and because we provide valued policy inputs.

10. The Secretary of State usually attends the Bank's Spring and Annual meetings, and stays in regular contact with the President throughout the year. Senior DFID staff have frequent contact with Bank staff, and also other government and non-governmental partners involved in shaping Bank policies. Our Delegation in Washington—comprising Treasury and DFID staff—has strong working relationships with many Bank staff. We have secondees working in the Bank at headquarters and field level. DFID country offices work closely with the Bank and in some cases, we have developed joint assistance strategies.

11. We use IDA negotiations to help secure changes in Bank policy on issues such as country level effectiveness. In 2005 we increased the size of our IDA contribution by 43% to £1.43 billion. This has arguably strengthened our overall leverage within the Bank and helped us to work more closely with the Bank to secure international progress on issues such as debt, health and climate change. Last year we were the second largest contributor to Bank managed Trust Funds, providing around £361 million.

DFID's position on and involvement in the negotiations on the 15th replenishment of the funds of the IDA

12. The International Development Association (IDA) has provided over \$170 billion in assistance to the world's poorest countries since its creation in 1960. In the Bank's Fiscal Year 2007 (1 July 2006–30 June 2007), IDA committed \$11.9 billion, a 25% increase on the previous year. DFID strongly supports IDA's focus on low-income countries and the financial and technical support that it provides to them. The UK is the second largest contributor to IDA 14 (2005–08) providing £1.43 billion or 13.18% of total contributions, a 43% increase over IDA 13.

13. Negotiations on the 15th replenishment of the funds of the IDA (IDA 15) began in March 2007 and are expected to conclude later this year or in early 2008. There are approximately 40 donors. The main themes for the replenishment negotiations are IDA's country-level effectiveness, fragile states and IDA's role in the international architecture. The UK is pressing the Bank to better implement the 2005 Paris Declaration on Aid Effectiveness and so ensure IDA becomes more effective at the country level.

14. DFID will not take any funding decisions related to IDA 15 until the implications of its Comprehensive Spending Review Settlement have been worked through. The UK is committed to reaching the 0.7% target by 2013. We will use a variety of bilateral and multilateral channels to do so, including IDA.

What support is DFID providing for making the multilateral system more effective through better World Bank coordination with other multilateral institutions, especially UN agencies and the IMF?

15. DFID attaches great importance to improved coordination between multilateral institutions and has pressed the Bank to do better. For example, the UK Ministerial statement to the Development Committee at the 2007 Spring Meetings stressed the importance of the Bank working with other agencies, particularly the UN. We have pressed on specific issues, including successfully lobbying the Bank and the United Nations to overcome differences that were delaying the delivery of aid in Southern Sudan. However, more needs to be done and at DFID's request, the Bank has agreed to report back on its cooperation with the UN and other agencies in fragile states at the IDA 15 Mid-term review in 2009.

16. In the health sector the World Bank is a key partner in the International Health Partnership that was launched in September. The Bank will be working closely with the World Health Organisation in particular to help implement the Partnership. Earlier in the year, DFID lobbying helped ensure that the World Bank's new Health, Nutrition and Population strategy included a strong emphasis on coordination with the WHO and other relevant agencies.

17. The Government has consistently encouraged the World Bank and the IMF to work more closely together in both low-income and middle-income countries, and we contributed to the 2006–07 examination of Bank-IMF collaboration chaired by Pedro Malan.

Co-ordination on development policy between EU member states and its impact on World Bank policies and practices

18. The Treaty on the European Union and the 2005 European Consensus on Development set out EU Member States' views about the importance of close coordination on development policy. There are clear benefits to coordination through both leveraging influence at the policy level and in promoting a better use of scarce donor resources and reducing the burdens on recipient countries at the operational level.

19. EU Member States can have a powerful influence at the Bank and the Government welcomes informal co-ordination among Member States. Weekly coordination meetings in Washington enable a sharing of information and scope for identifying shared objectives. Member States provided around 55% of total funding to IDA 14. The UK has therefore sought to form alliances with EU colleagues, and others, in pursuit of our strategic objectives, including during the IDA 15 negotiations.

The role of developing countries in World Bank decision-making

20. The voices of developing countries should be heard more effectively in the work of the World Bank. This is important both on principle—developing countries should have a greater voice in the decisions that affect them—and to improve the effectiveness of Bank programmes.

21. Developing countries could play a more influential role at three levels. At a country level the Bank must ensure that there is broad consultation and strong country ownership of the programmes that they finance. Developing countries could have a stronger voice within the Board of Executive Directors through strengthened participation in existing Board constituencies or alterations to the current model. DFID is funding an Analytical Trust Fund to help African representatives of the Board obtain analysis to inform their positions on Bank proposals. Finally, the UK has long argued that the President of the World Bank should be selected on merit, regardless of nationality.

POLICIES ON GOVERNANCE AND CONDITIONALITY

Comparative analysis of DFID's policies on conditionality and governance and those of the World Bank

22. There is much common ground on governance. Both DFID and the Bank emphasise that good governance is crucial to successful development and poverty reduction, and to achieving the MDGs. The principal objectives of both organisations are to help develop capable and accountable states to deliver services to the poor, promote private sector-led growth and tackle corruption effectively.

23. DFID's understanding of governance has broadened and deepened significantly over the past decade. It has gone beyond the management of the economy and reforming public sector, and now recognises the importance of the relationship between states and society and the role of informal institutions. To a large extent this is shared by the World Bank. However its mandate and role as a multilateral lending institution limits its ability to engage beyond the Executive and formal institutions. The Bank is however actively exploring ways in which it could work with a wider range of stakeholders.

24. Since 2004 the Bank has made significant progress towards improving its conditionality policy and practice. The principles underlying its current policy on conditionality are consistent with those framing the UK policy *Partnerships for Poverty Reduction: Rethinking Conditionality* published in March 2005.

<i>World Bank: 2005 Good Practice Principles for the Application of Conditionality</i>	<i>DFID: Five principles guiding UK aid relationships</i>
Ownership	Developing country ownership
Harmonisation	Participatory and evidence-based policy making
Customisation	Predictability
Criticality	Harmonisation
Transparency and Predictability	Transparency and accountability

25. Both DFID and the World Bank:

- recognise the importance of policy in development and the importance of conditionality in ensuring accountability;
- centre policies on the principle of country ownership of conditions and ensure conditionality is not used to impose policies on governments;
- ensure only critical policies are chosen as conditions to avoid micro-managing countries;
- have committed to limiting the overall burden of conditionality, by ensuring harmonisation and a reduced number of conditions and benchmarks.

26. The use of economic conditionality has been contentious, especially privatisation and trade liberalisation. However economic conditionality covers broader issues such as fiscal and monetary policy including for example spending choices on basic services and controlling inflation, which are critical for growth and poverty reduction. DFID and Bank practice is converging. In 2006 the Bank committed to avoid conditions on sensitive policy areas (including privatisation and trade liberalisation) if ownership is uncertain or the political environment is fragile.

27. There are two main differences between the two organisations' policies on conditionality. First, the Bank has an explicit focus on policies as conditions, given that Bank Development Policy Lending –as the name indicates- is about supporting policy change. The focus is on prior actions which are set out in legal agreements that are in the partner government's control. DFID on the other hand focuses more on the results achieved than the policies implemented. Second, unlike DFID the Bank does not have the mandate to explicitly use human rights in its conditionality framework.

DFID's capacity to effect political change in corrupt or weak administrations through World Bank funding

28. The Bank's mandate does not include effecting political change. The policies of partner countries and the underlying institutional arrangements will have a much stronger influence on political change than donor policies. But the political impact of Bank-funded activity and the social transformation it entails can be significant. For example, work to reform public administration and the management of public expenditure can reduce incentives and opportunities for corrupt practice and embezzlement.

29. The principal purpose of the World Bank's engagement on governance and anticorruption is to support poverty reduction. It does this through work to help develop capable and accountable states and institutions that can devise and implement sound policies, provide public services, set the rules governing markets, and combat corruption, thereby helping to reduce poverty.

30. Governments are the Bank's key partners in governance and anticorruption programs, while, within its mandate, the Bank is also open to involvement with a broad range of institutions taking into account the specificities of each country.

The impact of World Bank conditionality on governments and on the poor

31. The Paris Declaration commits both DFID and the Bank to supporting country led strategies to strengthen capacity for development, based on a sound technical analysis, and responsiveness to the broader social, political and economic environment. Experience has taught us that reforms are unlikely to work unless they are based on a good understanding of the country context and have domestic political support. This is supported by economic evidence which suggests that in the past, imposed conditionality often failed to generate enduring reforms.

32. The Bank in the past used prescriptive conditionality and paid insufficient attention to the impact of policy changes on the poor. Following encouragement by the UK and others, the Bank now makes much wider use of Poverty and Social Impact Analysis (PSIA) when considering supporting policies that may have significant impacts. This allows governments to mitigate short-term negative impacts of policy changes. We will continue to encourage the Bank to make full use of PSIA.

Likely trends in World Bank conditionality

33. Over the past two decades World Bank conditionality in policy-based lending has shifted away from economic policy conditions towards the use of governance, public financial management and investment climate related conditions. The Bank's conditionality practice is expected to continue to adhere with the 2005 Good Practice Principles. In particular, the limiting of conditions to those critical to achieving objectives is likely to improve as the Bank phases out the use of process conditions eg action plans.

34. The average number of conditions per policy-based operation declined from around 30 in the mid-1990s to about 12–13 in 2006. We do not expect any further significant fall in this number. In contrast, the average number of benchmarks (steps in reform process) have increased from 5–10 in the mid-1990s to around 25 in recent operations. We expect a reduction in this number following commitments made by the Bank in 2006.

35. We expect the Bank to make further progress towards the recommendations made as part of the 2006 review which include:

- Early disclosure of analytical work that underpins programme design in order to open up discussions with governments and other stakeholders in country on policy decisions.
- Avoiding conditions on sensitive policy areas (such as privatisation and trade liberalisation) if ownership is uncertain or the political environment is fragile and avoiding duplication of IMF conditions.
- Avoiding process conditionality and reducing benchmarks.
- Working with other partners to define joint frameworks which are harmonised with country budget needs and timing.
- More systematic use of baselines for results frameworks.

WORLD BANK INTERNAL GOVERNANCE

The relationship between the World Bank's internal governance and transparency and its credibility and effectiveness

36. The credibility and effectiveness of any organization depends on the effectiveness of its internal governance and its transparency. DFID believes that while the World Bank can improve some aspects of its governance, overall it is a highly credible and effective organization.

37. The Bank's transparency has improved substantially over the years. Nearly all World Bank documents are publicly disclosed, and the Bank has established about 100 Public Information Centres (PICs) around the world, which provide the general public with copies of Bank publications and access to the Bank's website. Bank management has also embarked on an extensive programme to enhance information dissemination and outreach, including upgrading some 70 PICs and developing a policy framework for translating documents into different languages. The World Bank scored well in One World Trust's 2006 Global Accountability Index. Out of ten intergovernmental organizations it ranked second in terms of transparency capabilities –although much lower on quality of disclosure- and top for its complaint and response capabilities.

38. A sub-committee of the Bank's Committee on Governance and Administrative Matters is examining internal governance issues in the wake of the resignation of Paul Wolfowitz.

The make-up of the board and the selection of the President

39. The UK has a long-standing commitment to support developing country calls for a stronger say at the World Bank. The 2006 UK White Paper on International Development reaffirmed our view that the practice of picking the heads of the World Bank and the IMF based on nationality should end and both Presidents should be chosen on merit.

40. The make-up of the Board continues to be the subject of debate among the Bank's membership. 24 Board Members currently represent the interests of 185 countries. The UK has its own Executive Director on the Board. But some EDs represent dozens of countries. The Board is considering options to increase the voice of the poorest countries in particular.

The relationship between the World Bank and parliaments, both in donor and developing countries

41. Good governance is at the heart of development. To achieve good governance, states must be capable, accountable and responsive to the needs and rights of citizens. Parliaments have a crucial role to play in promoting and ensuring accountability. The relationship between the World Bank and parliaments will vary from country to country.

42. The Parliamentary Network on the World Bank (PNoWB), an informal network of over 800 parliamentarians from 110 countries, mobilises parliamentarians in the fight against global poverty, promotes transparency and accountability in international development, and offers a platform for policy dialogue between the World Bank and parliamentarians. PNoWB has unique access to the World Bank and many of its activities are undertaken in partnership with the Bank, including the Annual Conference and the Field Visits programme.

43. We support the Parliamentary Network's aims of strengthening accountability and transparency in international financial institutions, in particular the World Bank, and advocating for development. The Network's Board has recently been considering a report recommending a number of reforms to increase PNoWB's effectiveness. The UK has provided support to PNoWB for the development of networks of Parliamentarians in Africa.

October 2007

Supplementary memorandum submitted by the Department for International Development

PROFORMA FOR STAND ALONE MULTILATERAL FINANCING DECISIONS

The following issues should be taken into account in preparing financing submissions at Director level¹ and above:

1. What is the agreed vision/role for the organisation in the overall international architecture?
2. What is its relevance for poverty reduction (MDGs) or humanitarian assistance?
3. What is our current strategy for financial support?
4. What is the specific case for additional financing at this point:
 - What specific outcomes would the extra financing deliver?
 - Why is it a priority now?
 - What would be the implications for the agency of not providing this financing?
 - What are the burden sharing implications (what do we know about other donors financing plans)?
 - Are specific political issues involved?
 - (where relevant) What has changed since the aid framework allocation ?
 - What are the implications for International Division's other multilateral financing arrangements?
5. What is the agency's record in terms of improving its organisational effectiveness?

¹ All new multilateral finance decisions which add to more than £20 million on a three year basis (or when there are key strategic issues) need to be submitted (through the Director) to the Secretary of State and follow Blue Book guidance on spending proposals over £20 million (including seeking approval of the PFO). Formally the Blue Book still requires project concept notes for spend above £20 million to be circulated to DC members but we are seeking clarification of this and assume—for now—that the existence of the MFAC replaces this requirement. The Director will decide, on a rolling basis, which proposals should be brought to the Committee either on a paper or meeting basis. Whether or not the Director decides that projects should be discussed by the MFAC he would normally wish to see all new proposals for core financing even when the amounts (on a three year rolling basis) are below delegated authority for UK HODs (currently set at £7.5 million).

6. Status report on IS Process:
 - What is the current status of the IS?
 - What progress has the organisation made towards agreed targets?
7. Are there any risks (fiduciary and other) to this financing?

Supplementary memorandum submitted by the Department for International Development

I know that one of the issues that the International Development Committee has looked at as part of its inquiry into the World Bank is the structure of the UK delegation office.

Ahead of the evidence that Shriti Vadera will give to the Committee on the 10 January, I wanted you to know that it has been decided by the Government that in future the UK will have a full-time Executive Director to the Bank and a separate full-time Executive Director to the IMF.

The UK will retain a single office, which will enable us to continue to take a consistent approach to handling issues that arise in and/or affect both institutions.

The World Bank senior management strongly supports this change. Like us, they expect it to facilitate an even more effective partnership. This is particularly important to me in light of the announcement I made last month on our contribution to the IDA 15 replenishment.

Rt Hon. Douglas Alexander MP
Secretary of State for International Development

8 January 2008

Memorandum submitted by ActionAid UK

INTRODUCTION

1. ActionAid International is an international NGO working in fifty countries worldwide, including the UK. While this submission has been put together by ActionAid UK staff, our positions and recommendations reflect the experiences of our staff and partners in Africa, Asia, North America and Europe.

2. ActionAid welcomes the decision of the IDC to conduct an enquiry into DFID's relationship with the World Bank. Our research and advocacy work on the World Bank has shown us that there is an urgent need for reform of the Bank's policies and governance. Moreover, with a rising UK aid budget and likely increase in contributions to the World Bank under the IDA 15 negotiations, we consider this an opportune time for such an enquiry to take place.

THE WORLD BANK'S RELATIONSHIP WITH DFID, OTHER DONORS AND STAKEHOLDERS

3. ActionAid UK has considerable concern about increasing UK funding being channelled into the World Bank, for four reasons.

- (a) Firstly, as outlined below, the World Bank continues to impose policy conditions onto recipient countries. These conditions are problematic in two respects. Firstly, the imposition of policy choices from outside tends to make recipient governments more accountable to donors than to their own citizens. Secondly, the particular policy mix promoted by the World Bank has often had harmful impacts on poor people, particularly poor women.
- (b) Secondly, also as outlined below, the World Bank's own governance structure is highly undemocratic and unaccountable. This is undermining the Bank's credibility and legitimacy in the developing world.
- (c) Thirdly, World Bank supported projects, particularly those in infrastructure, have a poor track terms of their impacts on poor communities and the environment.
- (d) Finally, the World Bank pays inadequate attention to women's rights and gender equality, even though progress in this area is vital if we are to meet the Millennium Development Goals.

 POLICIES ON GOVERNANCE AND CONDITIONALITY

4. In 2005, the UK adopted a new policy on conditionality, which stated that DFID would not make its aid conditional on specific policy choices from recipients. NGOs including ActionAid welcomed this new position, noting that it placed DFID at the forefront of donor thinking.

5. The World Bank's policy on conditionality, meanwhile, falls short of that of DFID. The Bank's "Good Practice Principles" (GPPs) on conditionality, adopted in 2005, committed the Bank to following a set of five principles, including ownership, harmonisation, criticality, customisation, and transparency and predictability. However, the Bank's interpretation of these principles is ambiguous, and their implementation has fallen short of expectations.

6. Under the principle of "ownership", for example, the Bank's emphasis is on a country's acceptance of a given set of policies, rather than its ability to choose its own development path. For example, the good practice principles only identify a need for "some clear evidence of ownership" and states that this is provided by "a track record of sound policy implementation." The Bank even states that where "the government's own policy agenda is weak . . . the Bank would choose not to provide development policy loans."² This seems far from allowing the genuine policy space that true ownership would require.

7. The Bank's definition of "*transparency and predictability*" focuses solely on Bank-government discussions and review processes. No mention is made of the need for the World Bank to be transparent and accountable to citizens and parliaments about their activities in country, the content of conditionality matrices, or the nature of their policy discussions with governments. Similarly, while highlighting the need for predictability, the Bank makes no mention of the need for predictable multi-year funding commitments.

8. Forthcoming research from the European Network on Debt and Development (Eurodad) identifies some progress in reducing the number of conditions attached to loans, with the overall burden of conditions (both binding and non-binding) falling from 42 in September 2005 to 29 today. However, the number of legally binding conditions remains high, at an average of 12 per loan.

9. The content of World Bank conditionality remains heavily focused on privatisation and free trade policies, despite their questionable track record in reducing poverty. The Eurodad research, for example, shows that almost one in four of all conditions are economic policy conditions, and that on average each loan agreement includes 6 conditions relating to privatisation.

10. This high level of privatisation related conditionality is alarming given the numerous examples of failed privatisations promoted by the World Bank. In Tanzania, for example, the World Bank made aid and debt relief conditional on Tanzania privatising its water sector. In response the government agreed to the privatisation, but after two years revoked the contract of the private company managing the water sector (Biwater) due to sharp price rises and repeated violations of the contract it had signed with the government. Biwater is now suing the Tanzanian government and refusing to release vital documents about the case to the public.

11. In Mali the World Bank made its provision of aid dependent on the privatisation of the electricity and cotton sectors. It has since privatised its electricity sector, a step which has led to only small increases in coverage but also sharp increases in electricity prices. However, the Malian government has so far refused to privatise its cotton sector, as it feels public ownership is vital to public interest, and as a result the World Bank has withheld \$72 million in aid from Mali.

WORLD BANK INTERNAL GOVERNANCE

12. In ActionAid's experience, the World Bank's undemocratic and unaccountable governance structure is undermining its ability to effectively operate effectively in poor countries, particularly in the areas of good governance and anti-corruption programmes.

13. Particular problems with World Bank governance include the selection of its leadership, voting shares on the World Bank's board, and lack of transparency.

14. The World Bank's President has traditionally been chosen by the US Administration, under a gentleman's agreement dating from the foundation of the World Bank. All Presidents, including the current incumbent appointed earlier this year, have been selected in this way. This process is in direct contradiction to stated UK government policy, which is that 'the practice of picking heads of both [World Bank and IMF] should end.' ActionAid believes that the World Bank President should be appointed on merit, regardless of nationality, under a fair and transparent selection procedure.

15. Seats and voting shares on the World Bank board are also heavily skewed towards the rich countries. For example, the UK, along with the US and three other countries, has its own Executive Director, while 47 Sub Saharan African countries share only two Executive Directors between them, and only 7% of the vote. ActionAid believes that voting shares on the World Bank board should be fully democratic. As a first step towards this, we advocate a double majority voting system, in which both a majority of countries and of votes are required to pass any decision.

² World Bank, 2005, Review of World Bank Conditionality, page 28.

16. The World Bank is also deeply untransparent, both in terms of the decisions made at the Executive Board and its activities in country. Executive Board discussions remain secret, making it difficult for citizens to monitor their governments position when key decisions are taken. Transparency is also an issue at country level. In Pakistan, for example, people negatively impacted by recent World Bank-funded rehabilitation work on the Taunsa Barrage in the Punjab, demanded to be formally consulted during a World Bank inspection of the project, so they could highlight the devastating flooding, land erosion and displacement it has caused. In a manner consistent with the failure to consult local people in any way during the planning for the project, the World Bank has withheld vital information about the investigation from those impacted and taken only limited steps to involve them in their investigations.

THE WORLD BANK IS NEGLECTING GENDER ISSUES

17. Poverty has a female face, and therefore any efforts to fight poverty need to place women's rights front and centre. However, the World Bank's Gender Action Plan fails to sufficiently address the need to empower women. Instead the policy is based solely upon the fact that it makes 'economic sense' to promote women working in the selected industrial sectors in which the bank has most influence (i.e. finance, agriculture, infrastructure, sanitation and so on) because there is an increasingly strong business case for it.

18. Moreover, the World Bank gender policy does not cover policy-based lending (which often imposes socio-economically harmful reforms such as privatisation of healthcare and water supply, the impact of which falls disproportionately on marginalised groups, like women and children). Thus operational policies are the only Bank policies to which civil society can hold the Bank to account on gender issues.

19. The Bank is also failing to effectively fight HIV/AIDS, which predominantly impacts upon women. Over the period 2003–06, average World Bank expenditure on reproductive health and HIV/AIDS was less than 6% of total spending. Moreover, World Bank policies are themselves undermining the fight against HIV/AIDS and gender inequality. Such policies include downsizing of the public sector, privatisation of public services, imposition of wage bill ceilings and the promotion of intellectual property rights, which limit the availability of healthcare among the poorest.

SUMMARY RECOMMENDATIONS

In summary, ActionAid recommends that:

20. The UK should not increase funding to the World Bank unless it can achieve assurances that the Bank will end its most damaging practices. As a first step, the UK must make some of its funding to IDA 15 contingent on the Bank ending its use of policy conditionality.

21. The UK must press the World Bank to reform its governance structure. This means:

- (a) World Bank leadership selection must be open to candidate of all nationalities, based on merit.
- (b) There must be a radical redistribution of votes on the World Bank board to ensure greater democracy. As a first step, a double majority system should be adopted, in which decisions require approval of both a majority of countries and a majority of votes.
- (c) There must be a presumption of disclosure of all World Bank documents, open board meetings, and wider consultation with external stakeholders on all policy proposals.

22. The UK must advocate for the World Bank to place women's rights front and centre in all its operations.

October 2007

Memorandum submitted by AquaFed

SUBMISSION OF EVIDENCE

1. AquaFed, the International Federation of Private Water Operators, is pleased to take this opportunity to respond to the call to give evidence to the International Development Committee's inquiry into DFID and the World Bank. In this response, AquaFed represents companies from several nations as well as Britain that are operating in developing countries including those that receive British development assistance. This response may not represent the views of British water operators that are not members of the Federation.

2. AquaFed was pleased to have had the opportunity to have made a contribution to the previous inquiry on water and sanitation (WAS WE 27 and Uncorrected Evidence 57). The executive summary of the former is annexed to this memorandum. A number of the points that we made in those submissions, appear relevant in the context of this inquiry. In particular our comments on measuring performance and supporting good governance as a precondition to achieving sustainable results. We encourage the British Government, DFID and the World Bank to pursue these objectives through coordinated policies and actions.

1. *Stimulating projects that maximise results for the poor*

1. To meet its objectives, it is important for the British Government and for British taxpayers that DFID manages the expenditure of the money entrusted to it in the most efficient and effective manner to achieve the best results.

2. This requires DFID to measure the results in terms of lives improved where the money is spent. It needs to compare this ultimate measure with the money provided by taxpayers to obtain an indicator of the efficiency of the processes that it uses to undertake its work.

3. Pooling some of the UK's aid money with other countries through Multilateral Financial Institutions can be an effective way of working. But DFID needs to know what proportion of the money that is passed to the World Bank reaches those in need in the field. DFID needs to measure its own contribution to the MDGs even if its funds pass through third-party agencies.

4. This also means that DFID needs to set its own conditions when accepting to contribute financially to a project or a policy in the water sector. These conditions need to be understood and agreed between all the parties and designed to maximise the impact of the aid on the poor people.

2. *Answering the needs of water sector: Securing financial leverage and targeting local authorities' needs*

5. Three high-level world panels have issued to governments the same recommendations in the past four years. The *Financing Water for All* reports chaired by M Camdessus in 2003 and by A Gurría in 2006 and the Hashimoto Action Plan released in 2006 by the UN Secretary General's Advisory Board on Water and Sanitation all recommended that donors like DFID use significant parts of their development aid:

- to mobilise increased volumes of non-aid financing flows by using ODA as a catalyst that facilitates the application of funds from other sources to water projects; and
- to target the needs of local authorities/operators through facilitating their access to finance.

6. Working together DFID and the Multilateral Financial Institutions can do more to achieve these goals in the water and sanitation field when they engage in supporting specific projects or in enhancing local financial markets conditions for water utilities.

3. *Continuing joint applied research for Development*

7. The World Bank is a leading organisation in promoting and conducting applied research into development processes and in providing high level policy advice. Much of its work is supported by the real field experience gained on projects that it sponsors. In the water and sanitation sector, initiatives like the Water and Sanitation Program (WSP) and the Public Private Infrastructure Advisory Facility (PPIAF) give very practical insights into real problems and propose sustainable solutions to them. These are good examples of pooled efforts. This effort must be continued.

4. *Even-handed and continuous support to development agents to maximise efficiency in the field*

8. When DFID or the World Bank partner with development agents, such as NGOs, private sector investors or operators in projects, especially in experimental or pilot projects, they should see these projects through to their conclusion, maintaining an even-handed and fair approach between these agents, the host governments and the taxpayers. This is necessary to maximise efficiency in the field through the continued commitment of all potential actors.

9. In this context it is particularly important that DFID and the World Bank maintain consistent support to operators who agree to undertake projects in weak governance zones to further international development objectives such as the MDGs. To meet these policies in weak governance zones, these companies are required to assume risks and to make long term commitments that need continuous institutional support. DFID, the World Bank and other International Institutions should recognise that ensuring long term support to these projects is essential to meet the objectives and contributes to strengthening the governance systems in the countries where they are undertaken.

October 12, 2007

Memorandum submitted in October 2006 by AquaFed to the International Development Committee

EXECUTIVE SUMMARY

1. AquaFed, the International Federation of Private Water Operators, is pleased to take this opportunity to respond to the call to give evidence to the International Development Committee's inquiry into water and sanitation. In this response, AquaFed represents companies that are operating in developing countries including countries that receive British development assistance. This response does not represent views of British water operators.

2. Being an international Federation of private operators, AquaFed has restricted its comments and evidence to matters of general interest or concern to development at the worldwide level. We have tried to avoid making any specific points about British policy or the conduct of DFID, since these are national issues largely beyond our remit.

3. AquaFed is encouraged by much that the White Paper contains. We very strongly support the emphasis on governance, creating effective states and combating corruption. These are essential prerequisites for development and poverty alleviation. We look forward to seeing how these policies can be turned into actions, and how they might lead the way in international development. Our members would be pleased to be involved, where appropriate at field level.

4. Water and sanitation feature throughout the paper, but we consider that these essential services, should have a still higher profile. Water and sanitation services underpin and enable so many of the other development objectives and all of the MDGs.

5. Our members' experience at many different scales in the developing world clearly shows that private sector operators can make a very useful contribution to water and sanitation development objectives. In recent years, their contribution has often been misrepresented. Their ability to perform in the field has been impaired by many of the issues discussed in the paper, including lack of good governance and corruption.

6. In our evidence, we make the distinction between "governmental" and "operational" issues. Both are essential and need to work in close association and partnership with each other. Governmental issues can only be carried out by properly empowered government structures. For water and sanitation, these usually need to be local governments or water authorities. Operational activities can be carried out by a wide range of organisations from public and private sectors, civil society, and even individuals. Almost all the challenges facing water services delivery are the same irrespective of which sector the operator comes from. Our evidence therefore advises against treating the sectors separately.

7. International donors and aid agencies should continue to work to make sure that local decision-makers have the choice of the full range of options including effective methods for supporting the existing public sector, as well as the various different institutional ways in which the private sector can be called upon to make its contribution.

8. International donors should contribute to facilitate access to long-term finance at reasonable interest rates for local operators, public or private.

9. We have outlined a number of practical points that we believe would enhance the ability of all operators, including the private sector, to deliver more and better services thereby reducing poverty and contributing to meeting the MDGs. These include actions by donors and governments in:

- targeting result;
- reinforcing rule of law to build confidence;
- providing financial support and using ODA to catalyse other funding;
- implementing recent developments in international financing;
- involving commercial banks and micro financing;
- supporting local governments and their choice of service delivery model
- engaging in capacity building;
- facilitating transfer of technology and know-how;
- stimulating more projects;
- implementing the right to water;
- focusing on practical and case specific solutions;
- supporting the participation of operators of all sizes including small-scale operators;
- encouraging Public Private Partnership contracts;
- contributing to the anti-corruption drive;
- assisting Water Operators Partnerships; and
- sponsoring and supporting research and development.

Memorandum submitted by the Bretton Woods Project

INTRODUCTION

1. The Bretton Woods Project is an independent NGO established by a network of UK-based NGOs in 1995 to take forward their work of monitoring and advocating for change at the World Bank and IMF. See www.brettonwoodsproject.org/about for more details.

2. This inquiry comes at a critical juncture. The World Bank faces serious questions about its role and legitimacy as it embarks on a long-term strategic review. Secondly, the UK must imminently decide on its contribution to the International Development Association. And finally, DfID will soon outline a new strategy for working with the Bank.

3. This provides an ideal occasion for DfID to take a step back, assess the coherence of Bank operations with its own objectives, articulate its vision for a reformed Bank, and clarify the UK role in attaining that vision. As this submission will elaborate, we believe that there are significant gaps between HMG policy and/or objectives and World Bank practice in three areas: the role of developing countries in decision-making; pursuing climate change objectives; and implementing a rights-based approach to development.

A. THE ROLE OF DEVELOPING COUNTRIES IN WORLD BANK DECISION-MAKING

(.) *governance structures*

4. The 2006 HMG white paper on *making governance work for the poor* states clearly that “the practice of picking the heads of both institutions based on nationality should end”.³ DfID’s Institutional Strategy Paper (ISP) for the World Bank 2004–07 sets out a success indicator for “demonstrable improvement” in recruiting “senior WB staff” in “open, meritocratic, transparent” methods.

5. Beyond the obvious failure to make any progress on the selection process for the presidency of the World Bank,⁴ the Wolfowitz presidency was marred by a series of high-level appointments which, by bypassing hiring rules of the Human Resources Department, made a mockery of open, merit-based, transparent selection.⁵ These very public failings have done enormous damage to the reputation of the Bank and Bank staff have suggested that they have adversely affected its ability to operate effectively.

6. Astonishingly, for an institution which advocates improved governance and accountability in its clients, the World Bank has no mechanisms to evaluate the performance of the President or the Executive Board. Such systems should be put in place mirroring the recommendations of the High-Level Panel on IMF Board Accountability.⁶

7. The 2006 HMG governance white paper also stated that: “developing countries need more influence in the World Bank and the IMF. They are weakly represented on both Boards where voting rights are decided by financial contributions. This balance must change.”⁷

8. As the Bank embarks on a long-term strategic review, now is the time for advocating for bold measures to significantly increase the democratic representation of developing countries at the World Bank (for a comprehensive treatment of these issues, please see South Centre Analytical Note).⁸ A recent ODI study suggests that country stakeholder perceptions of the World Bank’s effectiveness are adversely affected by the perceived lack of democracy in its governance structures.⁹

9. The network of UK NGOs which focus on the Bretton Woods Institutions believe that the UK should support the end of appointed chairs, and a consolidation of European representation on the board to allow increased chairs for developing country representatives. We support double majority as a practical, but by no means satisfactory, movement towards democratic representation, as outlined in a paper by Bretton Woods Project and One World Trust¹⁰ which elaborates the proposal for the IMF.

10. The white paper made a welcome call for “greater transparency in the way the World Bank and IMF operate”. Indeed, progress continues to be made on this front, with the publication of Country Policy and Institutional Assessments, and increased publication of economic and sector work, as advocated for in DfID’s WB ISP.¹¹

³ DfID White Paper, *Eliminating world poverty: Making governance work for the poor*, July 2006, para 8.22.

⁴ *From Wolfowitz to Zoellick: an opportunity lost*, Bretton Woods Project, June 2007. <http://brettonwoodsproject.org/art-554226>

⁵ *Wolfowitz saga turns ugly*, Bretton Woods Project, May 2007. <http://brettonwoodsproject.org/art-553145>

⁶ *High-level panel on IMF board accountability*, New Rules for Global Finance, April 2007. <http://www.new-rules.org/imfbdaccountability.htm>

⁷ DfID White Paper, *Eliminating world poverty: Making governance work for the poor*, July 2006, para 8.22.

⁸ *Reform of World Bank governance structures*, South Centre, September 2007. http://www.southcentre.org/publications/AnalyticalNotes/GlobalEconomicGov/2007Sep_Reform_of_World_Bank_governance_structures.pdf

⁹ *Recipient country stakeholder perceptions of multilateral donor effectiveness*, ODI, September 2007. http://www.odi.org.uk/pppg/cape/what_we_do/aid_effectiveness/Multilateral_Donor_Effectiveness/index.html

¹⁰ *Bridging the democratic deficit: Double majority decision-making and the IMF*, Bretton Woods Project and One World Trust, February 2007. <http://brettonwoodsproject.org/art-549743>

¹¹ WB ISP Indicators of success, DfID, September 2004, 8b.

11. The Bretton Woods Project is a member of the Global Transparency Initiative,¹² and we fully endorse its belief that people have a right to information from public institutions and a right to participate in the development policies and projects that affect their lives. In IFI-supported activities, transparency can help reduce corruption; identify potential social, environmental and economic risks and benefits; and avoid damaging communities and sensitive ecosystems. A detailed examination of the World Bank's disclosure policy conducted in September 2006 by the GTI¹³ found that the Bank's disclosure policies are "focused on publicly releasing select documents, while all other information remains confidential unless specifically approved for disclosure. This contradicts the presumption of disclosure, a rhetorical commitment made in WBG disclosure policies."

Suggested questions:

- *What steps will the UK take to ensure that a final solution is implemented to end the leadership selection crisis at the IFIs, and ensure that all senior management are selected through open, merit-based processes?*
- *Will the UK insist that systems should be put in place to evaluate the performance of the President and the Executive Board?*
- *Will HMG support an end to appointed chairs and a consolidation of European representation on the board of the World Bank?*
- *Will DfID support the GTI Transparency Charter for the IFIs calling for the Bank to implement a true presumption of disclosure in the upcoming review of its disclosure policy?*

(ii) *The role of developing countries in operational decision-making*

12. Of course, participation in formal decision-making structures in Washington DC is only part of a solution to the inadequate representation of developing countries in decision-making. It is critical that for effective development outcomes there must be timely, informed participation of relevant stakeholders, including parliamentarians and civil society, in Bank operations at a country level.

13. The DfID WB Institutional Strategy Paper calls for a strengthening of the capacity for analysis of the poverty, social, economic and environmental impact of policy options.¹⁴ We welcomed DfID's support for increased ex-ante poverty and social impact assessment (PSIA) at the Bank. However, there is now concern that having exhausted this support, the Bank has not mainstreamed impact assessment into its agenda. There is a lack of incentives for Bank staff to deliver proper PSIA, and evidence that the number of assessments conducted is declining.¹⁵

14. HMG is rightfully committed to evidence-based decision-making. A recent evaluation of World Bank research, led by Princeton professor Angus Deaton and commissioned by the Bank itself, has some worrying findings. Amongst its serious criticisms, it found that some Bank research is "technically flawed and in some cases strong policy positions have been supported by such (non) evidence", and that "the Bank proselytised selected new work in major policy speeches and publications, without appropriate caveats on its reliability".¹⁶ It also finds "remarkably little work co-authored by non-Bank researchers from developing countries". There is a disconcerting gap between DfID's commitment to have the Bank "strengthen national and local level systems of policy analysis",¹⁷ and the findings of the Deaton evaluation on Bank research in practice.

15. In DfID's own words, we agree that "it is inappropriate and has proven to be ineffective for donors to impose policies on developing countries".¹⁸ We welcomed the UK's critical assessment of the Bank's progress in implementing its good practice principles on conditionality in September 2006. This echoed the criticisms of several organisations in the BWI-UK network which have been conducting research into the Bank's use of conditionality.¹⁹ In anticipation of the 2007 review, NGO Eurodad has welcomed the decline in the average number of non-binding conditions (from 30 in 2005 and 27 in 2006 to 17 in 2007), but is frustrated by the Bank's "failure to show progress in streamlining the legally binding conditions and by an overall limited progress".²⁰

¹² www.ifitransparency.org

¹³ *Assessing World Bank openness: A transparency scorecard*, GTI, September 2006. <http://www.bicusa.org/proxy/Document.10002.aspx>

¹⁴ *Working in Partnership with the World Bank*, DFID, September 2004, p 4.

¹⁵ *Blind spot: The continued failure of the WB and IMF to fully assess the impact of their advice on poor people*, Oxfam and others, September 2007. http://www.eurodad.org/uploadedFiles/Whats_New/Reports/download.pdf

¹⁶ *Knowledge Bank-rupted: Evaluation says key World Bank research "not remotely reliable"*, Bretton Woods Project, January 2007. <http://brettonwoodsproject.org/art-549070>

¹⁷ *Working in Partnership with the World Bank*, DFID, September 2004, p 5.

¹⁸ *Partnerships for poverty reduction: rethinking conditionality*, A UK policy paper, DFID, March 2005, <http://www.dfid.gov.uk/pubs/files/conditionality.pdf>

¹⁹ See, for example, *What progress? A shadow review of World Bank conditionality*, ActionAid, September 2006 http://www.actionaid.org.uk/doc_lib/what_progress.pdf

²⁰ *Shadow report on implementation of the World Bank good practice principles on conditionality*, Eurodad, October 2007 forthcoming, www.eurodad.org

16. Aside from the need to make progress in the use of explicit conditions, we are wary of steps that are being taken which violate the *spirit* if not the *letter* of DfID's conditionality policy. There is concern that, through the use of Country Policy and Institutional Assessments, indicators used in the allocation of aid to low-income countries and in the prioritisation of Bank funding priorities for all recipient countries, the Bank may be limiting policy space and encouraging policy choices which are not in recipient's best interests. The empirical evidence upon which the Bank bases its selectivity is highly contentious (a thorough analysis of these arguments is to be developed in a submission from Elisa van Waeyenberge of the University of London).

17. Finally, DfID's WB ISP communicates the "need to form effective partnerships with other donors, parliamentarians and civil society".²¹ A success indicator on the Bank's relations with civil society was "to be developed".²²

Suggested questions:

- *Will DfID ensure that the World Bank puts sufficient funds into Southern-based research institutions to conduct impact assessment, ensuring that country-led PSIA be used in all Bank lending with significant distributional impact?*
- *Will DfID shift its emphasis in support for development research from the Bank to southern-based research institutions in line with its objectives to strengthen country systems of policy analysis?*
- *Will HMG withhold a significant portion of its contribution to the current IDA 15 replenishment round pending a World Bank commitment to end the use of economic policy conditionality?*
- *What evidence has DfID been provided with from the World Bank of improved relations with civil society and parliaments in recipient countries?*

(iii) *Coordination between the World Bank and IMF*

18. A key aspect of World Bank work in developing countries is that it is subject to some coordination between the World Bank and the International Monetary Fund (IMF). While there has been heavy criticism of the mechanisms and extent of collaboration,²³ the World Bank institutionally must follow the IMF's lead on macroeconomic and fiscal policy questions for countries that borrow from the IMF. This affects two areas that run counter to DfID principles: fiscal policy space and the risk of aid cut-off.

19. The DfID white paper acknowledges that "International partners—some of whom were sceptical that increased resources would be used effectively—have focused on constraints rather than the scale of need. This cycle needs to be broken. Developing countries now need to set out ambitious plans to reach the MDGs over the next 10 years."²⁴ However the IMF has continued to focus on constraints to the use of resources such as absorptive capacity constraints rather than using a needs-based approach. In a recent programme review for the facility which lends money to low-income countries, the IMF specifically said "The most useful scenarios would focus on an ambitious but controlled acceleration in aid inflows, rather than on MDG- or needs-based scaling up, which may entail financing gaps that could not realistically be filled." Because World Bank assistance must follow the IMF restrictions on fiscal policy, the World Bank is also prevented from funding based on budget scenarios determined by needs.

20. Secondly, DfID's policy on conditionality indicates "An IMF or World Bank programme going 'off track' will not automatically lead DFID to suspend its assistance."²⁵ This is part of DfID commitment to harmonisation of conditions, and to reduce the burden of conditionality. However the World Bank is committed, because of its coordination with the IMF, to suspend assistance to a country when the IMF has had a disagreement with country authorities about their economic policy. In this case where the IMF has declared a programme "off-track", DfID makes an independent assessment of the situation and coordinates with other donors before determining what action to take in regards to bilateral aid. But DfID assistance that is routed through the World Bank will be held up by the Bank regardless of DfID's independent assessment.

Suggested question:

- *How does DfID plan to ensure that multilateral institutions use needs-based assessments rather than relying on assessments based on the currently constrained fiscal framework in developing countries?*

²¹ *Working in Partnership with the World Bank*, DFID, September 2004. p 4.

²² WB ISP Indicators of success, September 2004, 8b.

²³ *Report of the External Committee on Bank-Fund Collaboration*, Pedro Malan *et al*, IMF, February 2007, <http://www.imf.org/external/np/pp/eng/2007/022307.pdf>

²⁴ DFID White Paper, *Eliminating world poverty: Making governance work for the poor*, July 2006, para 6.6–7.

²⁵ *Partnerships for poverty reduction: rethinking conditionality*, A UK policy paper, DFID, March 2005, <http://www.dfid.gov.uk/pubs/files/conditionality.pdf>, para 1.6.

B. PURSUING CLIMATE CHANGE OBJECTIVES

[Please refer to separate joint submission from Bretton Woods Project, Greenpeace UK, People & Planet, Practical Action and Christian Aid]

C. PURSUING A RIGHTS-BASED APPROACH TO DEVELOPMENT

21. FID outlined its rights-based approach to development in 2000 in its paper *Realising rights for poor people*.²⁶ The paper states that “Respect for, and commitment to, the human rights and fundamental freedoms set out in the Universal Declaration of Human Rights is a constant theme throughout our work.” Despite this, we find that DFID has failed to uphold its human rights principles in relation to the World Bank.

22. DFID’s *World Bank institutional strategy: indicators of success*, commits to “conduct by end FY06 an analysis of the gap between the current set of safeguard policies and relevant international standards and best practice, including those established by international treaties and conventions”. We are not aware that this has been carried out.

23. NGOs pushed for DFID to honour its rhetoric on the need for stronger safeguards, and to ensure that the Bank adhere to human rights principles during the revision of the IFC’s safeguard policy review. In a series of written documents, letters, and meetings with DFID during 2004-2006, NGOs detailed how DFID was not meeting its own policies on principles-based decision making and a rights-based approach to development. A letter to Hilary Benn of 24 May 2006, from representatives of 11 NGOs stated: “NGOs were extremely disappointed to note that based on its statement of March 2006, DFID no longer insists that the performance standards “reference and cite language from relevant international standards and conventions”. DFID is satisfied with the fact that ILO conventions are now referenced in the performance standards, but makes no insistence that universal instruments referring explicitly to human rights, indigenous peoples or the environment be included. We feel that this is inconsistent with DFID’s rights-based approach to development”.²⁷

24. In June the IFC released its *Guide to human rights impact assessment and management* for “road testing” by companies.²⁸ Human rights experts have criticised the IFC’s legitimacy in this area. The IFC claims that its “sustainability policy and performance standards reference internationally agreed human rights norms”. However Amnesty International has said that “the IFC’s performance standards ignore the evolution of international human rights law within the UN system, which should have been the basis for applying minimum standards to their clients. Instead they use language and concepts which are vague, open to interpretation and may not provide the protections that are required under international law”.²⁹

25. We support the call of Canadian NGOs Rights and Democracy and Halifax Initiative which insist that the IFC should clearly and explicitly state that it intends to comply with international law, and should ensure that its projects do not undermine human rights directly or indirectly. They point to current IFC-supported projects associated with clear human rights violations, such as the Glamis goldmine in Guatemala and Anvil copper-silver mine in the Congo.³⁰ The process surrounding the development of this new human rights impact assessment has been opaque, with little consultation with directly affected communities or civil society groups working in the area. Human rights experts assert that the IFC does not actually require a human rights impact assessment as part of its lending to companies and have made it clear that they are taking a “flexible” approach to their human rights impact assessment. However, if this tool is truly to reflect best practice, it can not allow companies to opt-in or opt-out as they see fit, and must draw on actual jurisprudence, rather than interpretation. Consultation with affected communities and/or civil society experts in the design of the IFC’s guide has also been limited.

26. More positively, John Ruggie, the UN special representative on business and human rights and the IFC recently launched a joint study on foreign direct investments and human rights. This aims to examine the relationship between investor “rights” and the human rights obligations of the host states.³¹ The study will look at the potential impact of these clauses on the host states’ ability to adopt and implement new human rights laws in areas such as labour, protection of the environment, and the provision of essential public services such as water.

27. This study adds to a report by Amnesty International (AI) on the World Bank-funded Chad-Cameroon pipeline in 2005 which examined the framework of legal agreements signed between the ExxonMobil-led consortium and the governments of Chad and Cameroon. These agreements may require the countries to pay large penalties if they interrupt the operation of the pipeline, even if making an intervention to enforce national laws and protect rights and could serve as a strong disincentive to the

²⁶ *Realising rights for poor people*, DFID, 2000 <http://www.dfid.gov.uk/pubs/files/tsphuman.pdf>

²⁷ Letter from UK NGOs to Secretary of State for International Development, Hilary Benn, 24 May 2006 http://www.ifwatchnet.org/sites/ifwatchnet.org/files/UKNGO_DFID_IFC240506.pdf

²⁸ *IFC’s guide to human rights impact assessment and management*, June 2007 http://www.ifc.org/ifcext/enviro.nsf/Content/OurStories_SocialResponsibility_HumanRights

²⁹ See *The IFC at fifty: All that glitters is too much gold*, September 2006, <http://www.brettonwoodsproject.org/art-542312>

³⁰ See *World Bank on human rights: “active support” but no politics*, November 2006, <http://www.brettonwoodsproject.org/art-547292>

³¹ *Contracting Human Rights? Ruggie Teams with IFC on Study*, September 2007 <http://www.socialfunds.com/news/article.cgi/2381.html>

governments of Chad and Cameroon to implement their human rights obligations. AI called on the Bank and other stakeholders involved to revise the project agreements to include an explicit guarantee that nothing in the agreements can be used to undermine either the human rights obligations of the states or the responsibilities of the companies.³²

28. We believe that a genuine commitment to human rights principles should include not financing activities that contravene international human rights law; taking full responsibility where the activities of the institution negatively impact or undermine the enjoyment of human rights; and addressing its complicity in past abuses, including through the provision of reparations.

Suggested questions:

- Will DFID ensure that a gaps analysis between the current set of World Bank safeguard policies and relevant international standards and best practice, including those established by international treaties and conventions is carried out as soon as possible as per its commitment?
- Will DFID insist that the IFC's guide to human rights impact assessment and management explicitly address all the rights contained in the International Bill of Rights, International Labour Organisation conventions, the UN Declaration on Indigenous Peoples' Rights and other relevant standards?
- Will DFID insist that the IFC's human rights impact assessment be conducted by an independent and competent body?
- Will DFID push for World Bank supported project agreements to include an explicit guarantee that nothing in the agreements can be used to undermine either the human rights obligations of the states or the responsibilities of the companies?

12 October 2007

Joint memorandum submitted by the Bretton Woods Project, People and Planet, Practical Action, Greenpeace UK, Christian Aid

1. DFID's approach to climate change and energy is inconsistent and contradictory. Despite assertions in its white paper *Eliminating world poverty: making governance work for the poor* that "the UK is working for international agreement on urgent action to prevent dangerous climate change"³³ the UK Government continues to support oil and gas extraction projects around the world through the World Bank and other IFIs. By funding these projects the UK Government is undermining its own efforts to reduce greenhouse gas emissions. It is also perpetuating problems of conflict and human rights violations often associated with such extraction. Rather than endorse the use of UK aid money for extractive industry projects, DFID should lead the way towards low carbon development, and push for the World Bank to transform its current energy lending, adopt a new energy and climate change strategy and revisit the recommendations of the Extractive Industries Review (EIR).

2. The EIR was commissioned by the World Bank in 2001 in response to criticism of World Bank involvement in extractive industries. The final report in 2004 concluded that extractive industries projects can be compatible with poverty reduction and sustainable development but only if the right conditions are in place.³⁴ It made crucial recommendations with regards to human rights, indigenous peoples, affected communities, environmental and social impact assessments, biodiversity, good governance and transparency. It also called for the World Bank to phase out investments in oil projects by 2008 and increase investments in renewable energies by about 20% annually. The majority of the recommendations were undermined by the World Bank in its management response.³⁵

3. In 2005 the G8 tasked the World Bank to take a leadership role in addressing climate change, and come up with an *investment framework for clean energy and development*. Its latest progress report will be release at the upcoming annual meetings in October. A longer term programme of country-level activities and global research is to be completed for the G8 summit in Japan in 2008. We believe that there are key reasons as to why the Bank as it currently operates is not the legitimate institution to be tasked with implementing this investment framework.

4. The World Bank has invested over \$25 billion in fossil fuel projects since 1992 when the climate convention was signed, while devoting only a small fraction of its energy budget to clean and renewable energy sources. Despite laudable rhetoric on energy poverty and the impacts of climate change on the poor, the Bank continues to invest substantially in large oil and gas projects and conventional energy sources. In

³² *Contracting out of human rights: The Chad-Cameroon pipeline project*, Amnesty International, September 2005 <http://web.amnesty.org/library/Index/ENGPOL340122005?open&of=ENG-TC>

³³ See DFID's White Paper on International Development, *Eliminating world poverty: making governance work for the poor*, July 2006, para 7.8, page 93.

³⁴ EIR final report *Striking a better balance*, Emil Salim, 2004 <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/0,,contentMDK%3A20306686>menuPK%3A336936>pagePK%3A148956>piPK%3A216618>theSitePK%3A336930,00.html>

³⁵ World Bank management response to the EIR, 2004, <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/0,,contentMDK:20605112-menuPK:336936-pagePK:148956-piPK:216618-theSitePK:336930,00.html>

2006 it increased the size of its energy sector commitments from \$2.8 billion to \$4.4 billion. Oil, gas and power sector commitments account for 77 per cent of the total energy sector programme while “new renewables”³⁶ account for only 5%.³⁷ In 2004 at the Bonn International conference on renewable energies, the World Bank announced that it would increase its lending for “new renewables and energy efficiency” projects by 20% per year over five years. The Bank claims that this target has been met and exceeded each year,³⁸ but analysis by Friends of the Earth US finds that the Bank’s “new renewable energy and energy efficiency” portfolio includes environmentally damaging large hydropower projects such as the Nam Theun 2 dam in Lao PDR, projects funded by the Global Environment Facility and carbon finance funds.³⁹

5. In the oil sector, over 80% of the World Bank’s approved finance goes to projects that export to northern countries.⁴⁰ These projects are not about alleviating energy poverty or improving energy access, but instead create increased wealth for oil companies and governing elites, whilst feeding oil addiction in wealthy countries. Oil companies are benefiting from this “oil aid” at the same time that they register record profits. Independent research increasingly indicates that international oil companies are hindering, not promoting, development in poor countries, fuelling conflict and sinking oil-producing countries deeper into poverty and economic inequality.⁴¹ Continued oil dependence also has a disproportionate impact on the world’s poorest countries at a time of high oil prices, thereby undermining the benefits of debt cancellation and harming the very countries that international institutions like the World Bank should be helping.

GROWING POLITICAL CONSENSUS IN THE UK

6. In the UK there is a growing political consensus regarding the need to phase out the UK’s support for fossil-fuel extractive projects via multilateral development banks, and scale up support for genuinely sustainable renewable energy. This is illustrated in policy papers from the major opposition parties, an Early Day Motion and statements from former development secretary Hilary Benn.

7. The Conservative’s Quality of Life group’s *Blueprint for a green economy, submission to the shadow cabinet* released in September 2007 urges DFID “to produce an energy and climate strategy, covering both bilateral and multilateral energy funding, which will work towards the phasing out of support for all fossil-fuel extraction projects and an increase in access to energy in the developing world through the promotion of decentralised and low carbon forms of energy and energy efficiency projects”.⁴²

8. Similarly the Liberal Democrat policy paper *Zero carbon Britain—taking a global lead*, states that “climate change is not given a high enough priority in development programmes and that all too often projects are supported which involve, to cite only two areas of concern, non-renewable energy or forest reduction”.⁴³ The paper states that “coordinated action” is needed through the World Bank, the EU and the OECD to ensure that climate change is mainstreamed into development programmes and initiatives and that “development objectives fully support climate mitigation”.

9. The Liberal Democrat’s paper also cites the Environmental Audit Committee’s report of 2006 which concluded that “DFID’s climate change policy lacks coherence”. On the one hand “it highlights the seriously detrimental impacts of climate change on the most poor” and has a mandate to increase access to low carbon energy, alleviate poverty and help mitigate the effects of climate change. On the other “it is directly and indirectly responsible for very significant emissions of carbon into the atmosphere through the projects it funds”.⁴⁴

10. In March an Early Day Motion (EDM) on *DFID’s strategy on climate change and energy* was tabled by UK MP Michael Meacher. The EDM notes that DFID’s “financial and political support for oil companies in developing countries through multilateral organisations”, is “inconsistent with its mandate to alleviate poverty and help mitigate the effects of climate change in those countries”. It calls on DFID to produce a strategy on energy and climate change which contributes to emissions reductions by “phasing out support for oil and gas projects, massively increasing support for renewable, decentralised energy supplies,

³⁶ “New renewables” is a term used to cover renewable energy such as wind, solar, and mini-hydro. It does not include large hydropower (10 MW) or traditional biomass.

³⁷ *Energy to reduce poverty: the urgency for G8 action on climate justice*, page 7, Practical Action, 2007 <http://practicalaction.org/docs/advocacy/energy-to-reduce-poverty—g8.pdf>

³⁸ World Bank Group 2006. *Improving Lives: World Bank Group Progress on Renewable Energy and Energy Efficiency Fiscal Year 2006*, December 2006.

³⁹ See *Global energy solutions bank on carbon trading*, November 2006, <http://www.brettonwoodsproject.org/art-547310K>

⁴⁰ See *The energy tug of war: the winners and losers of World Bank fossil fuel finance*, Sustainable energy and economy network, 2004, page 2, http://www.seen.org/PDFs/Tug_of_war.pdf

⁴¹ See resources on *End Oil Aid* <http://www.priceofoil.org/endoilaid>

⁴² The Conservatives’ *Blueprint for a Green Economy*, the report of the Quality of Life Policy Group, chaired by John Gummer MP, was published on Thursday 13 September 2007. Chapter 9: The Imperative of Climate Change, focuses on perverse subsidies in section 9.3.3.2: Investment priorities. The report makes recommendations to the Conservative Party, and the proposals will be debated by the party before becoming official policy. <http://www.qualityoflifechallenge.com/documents/fullreport-1.pdf>

⁴³ *Zero carbon Britain—taking a global lead*, section 7.4.2, page 36–7. This policy paper was agreed at conference on 12 September 2007.

⁴⁴ *Trade, Development and Environment: The Role of DFID*, July 2006, paragraphs 92 and 93.

and reporting regularly to Parliament on the impact of its energy and climate change strategy on carbon dioxide emissions and poverty alleviation as part of its duties under the International Development (Reporting and Transparency) Act 2006.” Fifty-three MPs have signed on so far.⁴⁵

11. In the 2005 evidence session, Joan Ruddock MP asked whether there was “an inconsistency between the lending policies of the international financial institutions and the UK’s own commitment to climate change policies”, pointing out that the World Bank’s support for renewables was a mere 6% of its energy lending. Then Secretary of State for International Development, Hilary Benn agreed that faster progress was needed, adding “I agree with you completely about the opportunity to skip the generation of power generation in particular that is very polluting”. Speaking at the School of Oriental and African Studies in London in April 2007, Benn urged the World Bank to set “bold” new targets for renewable energy investments such as wind and solar, energy efficiency and low-carbon growth to help tackle climate change.⁴⁶

DITCH DIRTY DEVELOPMENT

12. A campaign by NGO People & Planet is calling for an end to the contradiction between government climate change targets and the continued use of development aid to support fossil fuel extraction projects. It points out that development aid, earmarked for poverty alleviation, is being put towards some of the most polluting industries in the world in order to ensure energy security for the wealthy industrial world with limited or no benefits to the poor in developing countries.⁴⁷

13. In April a report by NGO Practical Action, *Energy to reduce poverty: the urgency for G8 action on climate justice* criticises the World Bank’s “leadership” role to tackle climate change and solve energy poverty, given its promotion of a development path that will lock developing countries into fossil-fuel dependency. It calls on the World Bank to: end the use of aid money to support new large-scale fossil fuel projects, significantly “scale-up” investment into renewable technologies, deliver large-scale rural electrification programmes based on decentralised systems, and deliver programmes which give the poor access to efficient stoves and sustainably-sourced biomass fuels.⁴⁸

14. A Greenpeace report, *Energy [R]evolution*, presents an alternative to the International Energy Agency’s world energy outlook upon which the World Bank’s *Investment framework for clean energy and development* is based, and serves as a practical blueprint for how to cut energy related CO₂ emissions by 2050.⁴⁹ A follow up report, *Futu[r]e Investment* demonstrates how renewable energy forms a tiny part of the World Bank’s energy portfolio, pointing out that in 2002-2003 the Bank’s energy financing for big fossil fuel projects beat renewable and energy efficiency projects by a 17 to 1 ratio.⁵⁰ Greenpeace urges all IFIs rapidly phase out subsidies for conventional polluting energy projects.

ADAPTATION

15. An Oxfam report found serious inadequacies in the World Bank’s methodology for estimating the costs of climate change adaptation for developing countries.⁵¹ In its report, Oxfam set the figure well above the Bank’s widely cited estimate of \$10–40 billion annually—at least \$50 billion and far more if emissions are not cut rapidly. It points out that the Bank’s estimate only accounts for some of the costs faced by “macro actors” (donors, governments and the private sector), such as integrating adaptation into planning and policies, and climate-proofing new infrastructure. It has failed to consider the costs of climate-proofing existing infrastructure, as well as costs faced by “community-level actors” for the vast majority of adaptation needs. Citing the latter as the most effective actors in supporting adaptation, Oxfam argues for an approach rooted in equity and justice and declares that finance for adaptation should be provided in addition to aid and defined separately.

⁴⁵ EDM 1200: *Department for International Development’s strategy on climate change and energy*.

⁴⁶ *Speech by Secretary of State, Hilary Benn, Speech on the Future of the World Bank, Royal Africa Society/School of Oriental and African Studies, London, 12 April 2007.*

⁴⁷ *Ditch Dirty Development*. People and Planet campaign website, <http://peopleandplanet.org/ditchdirtydevelopment>

⁴⁸ http://practicalaction.org/docs/advocacy/energy-to-reduce-poverty_g8.pdf

⁴⁹ *Energy [r]evolution*, Greenpeace, 2007 <http://www.greenpeace.org/raw/content/international/press/reports/energy-revolution-a-sustainab.pdf>

⁵⁰ *Futu[r]e Investment*, Greenpeace, 2007, <http://www.greenpeace.org/raw/content/international/press/reports/future-investment.pdf>

⁵¹ *Adapting to climate change: What’s needed in poor countries, and who should pay*, Oxfam, 2007, http://www.oxfam.org/en/files/bp104_climate_change_0705.pdf/download

⁵² The request for inspection, submitted by Environmental Rights Action/ Friends of the Earth Nigeria can be found at: www.tinyurl.com/2xnb3q

 THE HUMAN AND ENVIRONMENTAL COSTS OF WORLD BANK-SUPPORTED OIL AND GAS EXTRACTION

16. *Failing to end gas flaring in West Africa.* The World Bank supported West African Gas Pipeline project which aims to deliver gas from Nigeria to Ghana, Benin and Togo via a 680 kilometre pipeline is currently the subject of a claim to the World Bank Inspection Panel by affected communities in Nigeria.⁵³ They cite the inadequacy of the project's environmental impact assessment and lack of public consultations. It is also unclear how the project will reduce gas flaring in Nigeria as previously asserted by the World Bank, or bring benefits to local communities. Property owners received on average between \$40 and \$80 each, as "full and final payment" for the large tracts of land that were acquired for the pipeline's right of way. Grievance redress procedures have been deliberately obscured from the local communities.

17. *Gender impacts of the Baku-Tbilisi-Ceyhan oil pipeline.* Large-scale extractive industries projects often bring limited and short-term employment opportunities, fail to provide promised support for local communities or to alleviate poverty. The economic 'booms' that accompany such investments are often unsustainable, and their negative effects disproportionately harm more vulnerable social groups such as women and indigenous people. A 2006 study by NGOs CEE Bankwatch and Gender Action found that the IFC-financed Baku-Tbilisi-Ceyhan oil pipeline, a \$3 billion project to transport crude oil across Azerbaijan, Georgia and Turkey has brought increased poverty, hindered access to subsistence resources, increased occurrence of still births, prostitution, HIV/AIDS and other diseases in local communities.⁵⁴

18. *Chad-Cameroon pipeline: failed commitments.* At the inauguration of the Bank-supported Chad-Cameroon oil and pipeline project in 2003, the Bank claimed that its involvement would help ensure that Chad's oil revenues would be used for the well-being of all Chadians, and that the project would be implemented in an environmentally and socially sound manner. Research by Cameroon's Centre for Environment and Development, the Chadian association for the Promotion and Defense of Human Rights, and US-based Environmental Defense finds that the Bank has failed on both counts. The project appears to have fuelled violence, impoverished people in the oil fields and along the pipeline route, exacerbated the pressures on indigenous peoples and created new environmental problems. Meanwhile ExxonMobil, the leader of the oil consortium and the world's largest oil company, is registering record profits.⁵⁵

Suggested questions

- *Will DFID match its practice to its principles, by urging the World Bank to revisit the recommendations of the 2004 Extractive Industries Review and fundamentally rethink its involvement in extractive industries, in particular the recommendation calling for the Bank to phase out its investments in oil production?*
- *Will DFID continue to push for higher targets for "new renewable" energy at the World Bank and for separate targets for "renewable energy and energy efficiency"?*
- *Will DFID develop a new energy and climate change strategy that would set a framework for monitoring and progressively reducing the climate impacts of development aid particularly as channelled through multilateral development institutions?*
- *Will DFID call for financing for adaptation to be provided in addition to existing aid commitments and defined separately?*
- *Will DFID insist that the World Bank evaluate and monitor the climate impacts of its lending?*

Memorandum submitted by Simon Burrall

THE WORLD BANK IN THE BROADER AID ARCHITECTURE

1. This note focuses on the role of the World Bank in the broader aid architecture and feeds into a submission to the IDC from ODI on DFID's work and relationship with the World Bank. It will focus primarily on two specific points raised in the IDC's call for submissions:

- a. Whether funding through the World Bank is an effective mechanism for advancing DFID's overriding priority of progress towards the MDGs; and
- b. DFID support for making the multilateral system more effective through better World Bank coordination with other multilateral institutions, especially the UN agencies and the International Monetary Fund.

⁵³ The request for inspection, submitted by Environmental Rights Action/ Friends of the Earth Nigeria can be found at www.tinyurl.com/2xnb3q

⁵⁴ See *Boom time blues: big oil's gender impacts*, 2006 <http://www.genderaction.org/images/boomtimeblues.pdf>

⁵⁵ See *the Chad-Cameroon oil and pipeline project: a project non-completion report*, 2007, http://www.environmentaldefense.org/documents/6282_ChadCameroon-Non-Completion.pdf

 ASSESSING MULTILATERAL EFFECTIVENESS

2. Understanding and assessing the effectiveness of aid delivered through different institutions in the international system is obviously critical to understanding the effectiveness of aid channelled through the World Bank. DFID carries out its own assessments of the effectiveness of multilateral organisations as well as contributing financially and intellectually to intergovernmental attempts to assess effectiveness.

DFID's assessments

3. DFID's own Multilateral Effectiveness Framework (MEFF) was published in 2005 and focuses on organisational effectiveness, or the systems that need to be in place to ensure development results. It draws on the results based management (RBM) approach and assessed effectiveness in terms of eight systems; corporate governance, corporate strategy, resource management, operational management, quality assurance, staff management, monitoring, evaluation and lesson learning, and reporting of results. It assessed these systems across three dimensions: their focus on internal performance, their focus on country-level results and their focus on partnerships across three dimensions. DFID assessed 23 multilateral organisations.⁵⁶

Intergovernmental Assessments

4. The Multilateral Organisation Performance Assessment Network (MOPAN) Survey is carried out by a group of like-minded donor countries⁵⁷, including the UK and is an assessment of multilateral organisations in countries where they have bilateral programmes. MOPAN surveys have been carried out on an annual basis since 2004. Three different organisations have been assessed in each of the three surveys to-date⁵⁸. MOPAN captures the perceptions of in-country staff to assess behavioural aspects of MO partnership performance with national stakeholders and other development agencies in the country. The World Bank was assessed in 2005.

5. Beginning in 2003, the Strategic Partnership for Africa (SPA) has undertaken an annual survey to establish the progress made by 20 budget support donors in aligning and harmonising their activities in 15 Poverty Reduction Strategy countries in Africa. The results are presented in a form that prevents easy comparison between donors.

6. The Paris Declaration on Aid Effectiveness includes a process to monitor progress against the 12 indicators in the Declaration. This survey is the first of three and is intended to determine the baseline performance against the indicators to enable future progress to be tracked. The survey was managed by a National Coordinator who was appointed by the recipient government. Questionnaires were separately completed by individual donors and by the government.⁵⁹

The Results of these Assessments

7. Overall the World Bank performs better than average in all of these different assessments. Against many of the individual indicators within the different methodologies, it is often the best performer when compared to the regional development banks and performs better than the majority of other multilateral organisations assessed. The MOPAN survey of 2005 summarises the World Bank's performance thus, "... a strong and influential actor in development policy and cooperation . . ."⁶⁰. DFID is now in the process of using the results from these assessments, and other sources of information, to pull together a series of scorecards for individual multilateral organisations. These will be used to help to guide internal allocation decisions as well as push for further reform.

The Missing Voice

8. DFID's assessments of multilateral effectiveness use a mixture of RBM tools, project and donor evaluations and perceptions data which is primarily drawn from donor staff, but less frequently also draws on the perceptions of partner country government officials. DFID is no different in this regard than other bilateral donor agencies. Missing has been any systematic survey of the perceptions of effectiveness of wider stakeholder groups.

⁵⁶ Scott, 2005, DFID's Assessment of Multilateral Organisational Effectiveness: an overview of results, DFID

⁵⁷ Austria, Canada, Denmark, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom.

⁵⁸ Multilateral Organisations Performance Assessment Network (MOPAN) (2005) The MOPAN Survey 2005: Perceptions of Multilateral Partnerships at Country Level; Multilateral Organisations Performance Assessment Network (MOPAN) (2004) The MOPAN Survey 2004, Survey Report; Multilateral Organisations Performance Assessment Network (MOPAN) (2006) The Annual MOPAN Survey 2006: Donor Perceptions of Multilateral Partnerships at Country Level.

⁵⁹ OECD/DAC (2007) Aid Effectiveness, 2006 Survey on Monitoring the Paris Declaration, Overview of the Results (Pre-publication copy), <http://www.oecd.org/dataoecd/0/45/38597363.pdf> OECD/ DAC (2006) [explanatory note <http://www.oecd.org/dataoecd/13/25/36306334.doc>], Accessed on 4 June 2007

⁶⁰ MOPAN Survey 2005, P7

9. To plug this gap, DFID commissioned ODI to undertake a six country pilot survey of the perceptions of five different stakeholder groups of the effectiveness of multilateral organisations (a copy of the project briefing and the full report is enclosed with this submission). The results of this survey clearly show that the range of criteria that recipient stakeholders take into account when they assess multilateral effectiveness differs from the range of criteria used within the assessment methodologies used by donors. In particular it appears that stakeholders place greater importance on the policies and procedures of donors—how donors operate—rather than the way they fund. Additional comments made by respondents to the survey suggest that issues of ownership and governance are of particular importance.⁶¹ Given the clear consensus that ownership of the development process is critical to aid effectiveness, embedding an understanding of stakeholder perceptions into DFID's overall effectiveness assessments will be critical.

BUILDING A MORE EFFECTIVE MULTILATERAL SYSTEM

10. There are two key international processes ongoing where DFID has the opportunity to support more effective coordination between the World Bank and other multilateral institutions.

The ECOSOC Biennial Development Cooperation Forum

11. Among the new functions assigned to ECOSOC by the 2005 UN Summit was to convene a biennial Development Cooperation Forum (DCF). The first DCF took place in Geneva in July 2007. This regular forum is intended to: review trends in international development cooperation, including strategies, policies and financing; promote greater coherence among the development activities of different development partners; and strengthen the links between the normative and operational work of the UN. The DCF will involve donor and recipient governments as well as a wide range of intergovernmental and multilateral organisations. In addition, the DCF is expected to open with a multi-stakeholder dialogue. This will offer an opportunity, which is not present in other international fora such as the OECD/ DAC for the involvement of a broader range of actors in the debate about the reform of the international aid architecture. Despite the first DCF having already taken place, awareness about it and the opportunities it represents remains very low.

Financing for Development

12. The United Nations hosted the International Conference on Financing for Development (FfD) in 2002 in Monterrey. FfD's main aim was to agree how the financial resources required for achieving the MDGs could be raised. An important element of the conference outcome was the mandated regular follow-up process. In addition to the regular components of the follow-up process, the UN General Assembly has agreed to hold a follow-up International Conference on Financing for Development in Qatar in September 2008. A key part of the FfD process has been to address ways of enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development. The international conference therefore will offer opportunities for engagement in debates about reform of the aid architecture in relation to other elements of the institutions of global governance.

Suggested Questions for DFID

13. DFID appears committed to assessing the views of a wider range of stakeholders as it makes its assessments of multilateral effectiveness. It is concerned though that bilateral assessments will have limited impact and is attempting to secure the agreement of a broader group of bilateral donors to develop a methodology to secure this broader range of views. *What progress is DFID making in securing the agreement of a broader group of bilateral donors that recipient country stakeholder perceptions about the effectiveness of the World Bank and other multilateral organisations are an important element of overall assessments of effectiveness?*

14. *What is DFID's assessment of the progress made at the first DCF? What action is DFID taking with its partners to ensure the success of the next DCF, particularly in the area of enhancing cooperation between the World Bank and other elements of the multilateral aid system?*

15. *What does DFID hope to achieve at the next FfD conference in 2008?*

⁶¹ Burall et al, 2007, Assessing Key Stakeholder Perceptions of the Effectiveness of Multilateral Organisations, ODI

Memorandum submitted by CARE International

1. INTRODUCTION

1.1 CARE International UK (CIUK) greatly welcomes the interest of the committee in this important issue. It is clear that, in principle, DFID does have capacity to influence the World Bank so that UK assistance delivered through this body contributes to the attainment of the department's own objectives. Nevertheless, we are concerned that the ways in which DFID has attempted to exercise this influence to date are frequently insufficient for the task, failing to appropriately reflect its priorities or to take advantage of opportunities for effective action.

2. CARE'S EXPERIENCE

2.1 The evidence which we present here is partly based on our experience as one of half a dozen UK NGOs that have received funds from DFID since 2005 for work specifically in Latin America within the framework of Partnership Programme Agreements (PPA). CIUK has attempted, in large measure, to relate that work to DFID's priorities as set out in the August 2004 Regional Assistance Plan (RAP) for Latin America. The RAP was designed in the context of a reorientation of DFID assistance to Latin America whereby a major focus of the department's efforts and the lion's share of its funds for the region would be channelled through the World Bank and the Inter-American Development Bank (IDB) based on the premise that:

as a modest sized bilateral donor, DFID can only achieve sustainable and significant contributions to poverty and inequality reduction if we use our bilateral resources to enhance the effectiveness of key influential organisations in the region, in particular the IDB and the World Bank.

2.2 Given this, since mid 2005 CIUK has been promoting and supporting actions by CARE country offices to influence these two international financial institutions (IFIs), including a strong emphasis on questions of governance and accountability which were highlighted in the RAP objectives.⁶² Our work has focused on project and/or sector level work in areas including health, education, malnutrition, water and sanitation. Progress has not been easy, but some modest successes have been achieved and the basis laid for stronger and more effective relations with both the World Bank and the IDB.

3. RESEARCH IN LATIN AMERICA

3.1 We also draw heavily on the findings of a group of researchers recently hired by CIUK to conduct research on the implications of donor policies for civil society organisations in Latin America, with particular attention to the policies and practices of DFID, the World Bank and the IDB. Research was conducted during June and July of this year in the four countries where DFID has or recently had direct presence—Bolivia, Brazil, Nicaragua and Peru; full findings will be published in a few weeks time.

4. POVERTY FOCUS

4.1 A major concern which affects all of DFID's work with the World Bank is whether and how the department is able to ensure that its assistance channelled through this institution is sufficiently focused on the reduction of poverty. As CIUK commented to DFID's Latin America Department in the context of a consultation earlier this year on the review of the RAP, *the current strategy relies on both the World Bank and the IDB having a clear pro-poor focus which in the current context is debatable.*

4.2 The well known association of the World Bank with the promotion of neo-liberal thinking has come in for much criticism precisely because of its failures to put the poor first. If, as predicted by the apologists for the so-called Washington Consensus, this had led to reductions in poverty there would be justification for this approach. However, despite the high level of adherence to these policies in Latin America, as DFID noted in the RAP: *Latin America is relatively advanced compared to other developing country regions . . . and attracts the most private capital (\$45 billion in 2002). However, this masks high, persistent, and severe levels of poverty.* In fact, as was noted in the 2004-05 Chronic Poverty Report by the DFID-funded Chronic Poverty Research Centre: *neo-liberal economic reforms have contributed to widening the inequality gap as resulting growth has been unequally distributed.* Brazil is a case in point: it is fast becoming one of the world's largest economies and yet 24% of the population continue to live in poverty on less than \$2 a day and 10% in extreme poverty on less than \$1 a day (figures quoted in the RAP). In this context, it is little wonder that the institutions most associated with the imposition of these reforms in Latin America—including the World Bank—are viewed very negatively by the majority of Latin American civil society organisations (CSOs) engaged in the fight against poverty and inequality.

⁶² On page 10 of the RAP, DFID states *Our regional programme will have three objectives, with the greatest effort given to the first objective.* That objective is stated as *Help the IDB and World Bank better enable poor people to shape, participate in and benefit from : (a) access to markets and international trade (b) accountable and responsive public sector management, and political systems.* (Emphasis added).

4.3 Some more recent developments in the World Bank cast further doubt on the degree to which it can be said to have a pro-poor focus. One such development was the fusion in 2006 of the infrastructure and sustainable development networks under the leadership of the vice-president for infrastructure. This has taken place in a context in which the Bank has reemphasised loans for large infrastructure projects which, historically, have tended to prioritise “national” concerns over the rights of poor and vulnerable people in the project areas.

4.4 A second development is the adoption by the private sector lending arm of the Bank, the International Finance Corporation (IFC), of so-called base of the pyramid thinking which postulates a central role for market-based approaches in development.⁶³ While it is understandable that the IFC would be attracted by such thinking, there is much concern that these approaches, which are also being explored by the IDB, are frequently inappropriate for most poor people and may divert attention towards the middle class and other non-poor sectors in developing countries.⁶⁴

5. GOVERNANCE AND ACCOUNTABILITY

5.1 As already noted in point two, this area has been identified by DFID as one of its major priorities for its work with and through the World Bank and the IDB in Latin America. For that reason, we believe that it is important that the committee consider it when reflecting on the question of *whether DFID’s priorities in specific policy areas . . . can be pursued effectively through World Bank funding.*

5.2 *The voices of the poor.* An important aspect of DFID’s approach on governance is to stress the importance of the poor being able to make their voices heard. For example, DFID’s Effective States Team, Policy and Research Division suggested earlier this year that:

*Poverty persists in large part because poor and marginalised groups are voiceless, disempowered and unable to hold others to account. The information and mechanisms to claim their rights, to seek redress and to hold power holders to account are often non-existent, weak or stacked in favour of the more powerful.*⁶⁵

5.2.1 The ability of the poor to demand attention to their needs and rights is an area which has also figured in World Bank thinking for several years. This has been expressed especially clearly by the Bank through such documents as the 2004 World Development Report “Making Services work for Poor people” and the 2005 publication “Citizens, Politicians and Providers: The Latin American Experience with Service Delivery Reform” and is reflected in recent strategy and policy documents including the LAC Regional Framework and Strategy for Engaging Civil Society FY05-FY07 “Inclusive Governance: Empowering the Poor and Promoting Accountability in Latin America and the Caribbean Region” and the FY07-FY11 Country Partnership Strategy for Peru. One much repeated concept in these documents and in Bank thinking is the “accountability triangle” which places the ability of the poor to demand quality services and access to their rights at the centre of the governance agenda.

5.2.2 This coincidence of thinking between DFID and the World Bank would seem to suggest that the department should have no difficulty pursuing its policy in this area through Bank funding. However, in practice, there are important gaps between the development of this thinking in the Bank and its operationalisation. This is especially true with regard to what are termed “long run” accountability mechanisms (service providers through governments to people) in part due to an assumption of community capacity to demand accountability. That capacity often does not really exist and the Bank is poorly placed to address this given that its principal *modus operandi* is through lending to national governments.

5.2.3 In this context, the option taken by DFID in Latin America to scale back direct operations in favour of funding via the IFIs has been counterproductive, as it has meant that successful prior work on building community capacity has been cut back, for example, the innovative program in Peru on citizenship, profiled in *Alliances Against Poverty: DFID’s Experience in Peru, 2000–05*.⁶⁶ Since 2005, DFID work with the Bank in Latin America does not appear to have directed funds or attention to this important aspect of governance and accountability. An external evaluation of implementation of the RAP published earlier this year by the Overseas Development Institute (ODI) fails to cite any examples of work in this area.

5.2.4 For these reasons, we believe that if DFID is to pursue its governance and accountability agenda through funding of World Bank activities it will be important for it to emphasise the development and operationalisation of measures to support demand-side accountability. We believe that such a focus would constitute an appropriate reflection of DFID’s longstanding commitment to the promotion of social inclusion, would appropriately strengthen the ability of the Bank to operationalise existing commitments, and, most importantly, would contribute strongly to overcoming the factors which underlie persistent poverty and inequality.

⁶³ See the 2007 IFC and World Resources Institute (WRI) report: *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid.*

⁶⁴ See for example Aneel Karnani (2006) *Fortune at the Bottom of the Pyramid: A Mirage.* University of Michigan Ross School of Business Working Paper Series Working Paper No 1035.

⁶⁵ Paragraph 13 of an informal paper distributed to UK NGOs this year *Governance and Transparency—some thoughts!*.

⁶⁶ It is only through CAREs ongoing support to work on the health sector in Peru, through the PPA funded Health Rights program, that some of this work has continued to any significant degree. *Alliances Against Poverty* is available on the DFID website <http://www.dfid.gov.uk/news/files/success—stories/south-america/peru-experience.asp>

5.3 Civil society participation

By this we refer both to the ability of civil society to participate in the decision-making processes of their countries as well as participation in decision-making by the World Bank itself. As in relation to the ability of the poor to make their voices heard, there is clear agreement between the Bank and DFID on the importance of this issue. Nevertheless, it is our experience and that of others that in practice the World Bank's support for participation by civil society organisations (CSOs) both in national decision-making and in relation to its own processes is very limited.

5.3.1 Researchers hired by CIUK to conduct research on the implications of donor policies for civil society organisations in Latin America (see point 3), have reported that opportunities for civil society engagement with the World Bank and the IDB on their country strategies have either diminished significantly in recent years or always been very limited:

In 2001, (in Peru) both institutions engaged in relatively wide-reaching consultative exercises with diverse groups of CSOs over their respective country strategy papers (but) in 2007, neither institution conducted more than a cursory consultation. . . . our research did not detect a similar diminution in IFI consultation processes with CSOs over their country strategies in the other three countries (where the impression is more that such processes have always been minimal and deficient).

5.3.2 A partial exception to this was reported by our researcher in Nicaragua where: *donors and IFIs pressured both the Aleman and Bolaños governments to ensure that civil society was consulted over the elaboration of the country's poverty reduction strategy in 1999 and the National Development Plan in 2002. Nevertheless, the participatory processes themselves were quite limited* suggesting that the World Bank and others pushing for this participation were very easily satisfied.

5.3.3 One frequent criticism from CSOs is that in-country consultations tend to be too brief and conducted too late in the development of strategies, policies and projects for their views to be factored into policy and program decisions. In addition, there is a frequent failure to provide information on proposals in sufficient detail for CSOs to comment meaningfully while mechanisms for reaching shared understandings and integrating those into the positions taken by the IFIs in their negotiations with governments are unclear or completely missing.

5.3.4 This lack of commitment by the Bank and other donors to meaningful civil society participation is also reflected by their failure to defend Peruvian NGOs in the face of public hostility from the current government, including the introduction of new legislation to control their activities:

In Peru, NGOs participating in a focus group lamented (this) failure . . . (which they blamed) on donors' preoccupation with working with government. Some donors are perceived to be withdrawing support from NGOs or showing more reluctance to fund them, in order to placate a new government whom they know is anti-NGO but with whom they are keen to consolidate relations.

5.3.5 Under these circumstances, we believe that DFID can and should use its relationship with the World Bank to promote meaningful and wide civil society participation in the formulation and implementation of development plans (both local and national) including those formulated by the World Bank itself. Indeed, in-so-far as those plans refer to actions which will be funded by DFID it would be appropriate for the department to *require* such participation.

6. DFID'S STRATEGY OF WORKING THROUGH THE WORLD BANK IN LATIN AMERICA

6.1 Finally, we wish to present a longish quote from the draft conclusions of our research which summarises our findings and recommendations on relations between DFID and the International Financial Institutions (IFIs) in Latin America; fundamentally the World Bank and the IDB. We believe that it will be useful for the committee members to read these reflections on the lessons learned from the most concerted effort made so far by DFID to work through the World Bank at a regional level.

6.2 Most of the Latin American CSOs interviewed in this study reacted negatively to DFID's strategy of channelling funds through the World Bank and the IDB—either because of these institutions' association with a neo-liberal model perceived to have aggravated poverty and inequality in Latin America, or because of the perceived failure of these institutions to take on board CSOs' proposals and opinions. Indeed our view is that DFID has alienated some of the very organisations and movements it helped to strengthen over the past decade as a result of its decision to work so closely with the IFIs in the region. Before continuing with this strategy for another four years, we recommend that DFID reflects on the implications of its close partnership with the World Bank and the IDB for its relations with other key actors fighting poverty, inequality and social exclusion in the region, and takes measures to avoid further distancing itself from Latin American CSOs mistrustful of this strategy.

6.3 The RAP states that the purpose of DFID's contributions to IDB and World Bank operations is to "strengthen the focus on poverty, inequality and inclusion, facilitating greater participation and engagement by a wider range of stakeholders." But amongst the CSO (and some government) representatives we interviewed, there is little faith in the ability of a small player like DFID to change the institutional culture of these huge organisations. After four years, most of the CSOs we consulted could see little evidence of DFID's impact on World Bank and IDB policy and practice at a country level in overall terms.

6.4 The exception to this rule appears to be Nicaragua where both CSOs and World Bank and IDB staff themselves acknowledge DFID's positive influence over these institutions. In our opinion, the maintenance of a DFID bilateral programme in Nicaragua has enabled DFID staff to develop constructive on-the-ground relations with in-country World Bank and IDB staff leading to concrete results and initiatives. Elsewhere the assessment is much more negative. In Peru, for example, where there is no longer any DFID presence, our research suggests that the space for civil society engagement with these two institutions has actually contracted since the RAP was approved in 2004.

6.5 In the light of the rather sceptical assessment of DFID's progress in relation to the World Bank and the IDB, we recommend that:

6.5.1 DFID's decision to continue with its strategy of contributing funds to the World Bank and the IDB is based on demonstrable evidence that it has managed to influence these institutions in the direction specified in the RAP over the past four years at a country level, or that at the very least concrete opportunities have been identified to do so in the future.

6.5.2 DFID improves its transparency and accountability to civil society by regularly communicating to CSOs (both Latin American and British) its progress in helping to strengthen the focus of the World Bank and the IDB on poverty, inequality and inclusion in Latin America.

6.5.3 DFID disseminates more public information on its website about the nature and activities of DFID-supported Trust Funds in the IDB and World Bank, as such information is only very partially available on either the IDB or World Bank websites. At a Latin American country level, our study indicates an almost total lack of awareness amongst the vast majority of stakeholders interviewed as to the existence of these Trust Funds, let alone the activities being funded through them.

Supplementary memorandum submitted by Care International UK

a) *Further examples from Peru of DFID having more influence over the IFIs in Latin America when it had a presence at a country level prior to 2004 (to complement examples given yesterday of positive examples of DFID influence from Nicaragua)*

In Peru, much of DFID's successful work on building community capacity and participation of the poor has been cut back since the closure of the bilateral programme and of the DFID office in Peru. But since 2004, DFID work with the WB does not appear to have directed funds or attention to this type of work. Meanwhile one INGO informant based in Peru (interviewed for CARE research) talked of the void left by the closure of the DFID office in Peru in 2005 with regard to advocacy on the IFIs. It is clear that DFID staff in Peru used to play an important role in engaging with IFI staff, facilitating dialogue between the IFIs and CSOs, and nudging IFI approaches in a more inclusive direction. For example:

PARSALUD example

The PARSALUD rural health reform project funded by the World Bank is supposed to include support for a system of local health administration committees (CLAS) whereby local people at community and district level manage and monitor delivery of health service. Up until 2004 DFID had an important health rights project which supported the CLAS and other forms of participation in PARSALUD. However, the Peruvian Ministry of Health is not keen on the CLAS committees and they have been allowed to wither on the vine since DFID staff left the country.

Despite lip service paid to the importance of the CLAS, the World Bank did nothing to reactivate them. DFID's health rights project could have been a major source of support for this component but it was cut under DFID's new strategy in Peru (though CARE took over part of the work) and no support for the CLAS was given by DFID Andes post 2004.

The Committees are now back on the agenda (including through a recently approved law) but only because CSOs—eg Foro Salud and CARE—are actively lobbying for it. But neither Peruvian CSOs nor CARE have the clout that DFID used to have to ensure that the World Bank remains committed to the CLAS and the government doesn't railroad them once again.

Peru Country Assistance Strategy consultation process

It may well be no coincidence that the level of World Bank consultation in Peru over its latest Country Assistance Strategy was perceived by CSOs in Peru as very tokenistic and poorly prepared compared to the process in 2001 when, with DFID support, the World Bank undertook a much more innovative and participatory "Voices of the Poor" approach to the CAS consultation.

These examples support the assertion of both the ODI and CARE's own research that (to quote the ODI's interim evaluation of the RAP), "Having a foot on the ground is crucial to maintaining DFID leverage over the IFIs."

b) *IDB*

Regarding the question from the committee concerning the US Treasury's opinion that the IDB is "dysfunctional" and that this is because the borrowers of the IDB have a majority on the board, CARE does not share this analysis. It is true that the on-going process of realignment has caused much turmoil in the IDB but we do not believe that this is related to the make-up of the board. On the contrary, in our opinion, the share of voting rights held by the borrowing governments is one of the strengths of the IDB. It provides a greater measure of democracy to the IDB's functioning than is the case of the World Bank and also goes some way towards ensuring country ownership of IDB country strategies and projects.

The current level of dysfunctionality in the IDB appears to be mostly due to the changes introduced by current IDB president, Luis Alberto Moreno, and to his own management style and personal agenda. For instance, early this year the board rejected a proposed implementation strategy for Moreno's "flagship" initiative "Opportunities for the Majority" for reasons which were not made clear. However, some sources inside the IDB have suggested that the real reason was that Moreno had behaved as though all that was needed was for the board to rubber stamp the proposal rather than properly consult with them. This suggestion is consistent with other complaints about Moreno emanating from within the bank.

c) *Country ownership*

Just to add to the points made by Romilly and Edward on this. Many of the CSOs we interviewed in Latin America this year emphasised that "country ownership" of the development process should include "citizen ownership" and not just "government ownership". This concern is particularly pertinent in countries where CSOs' relations with their governments are currently strained (eg Peru, Bolivia, Nicaragua). Most IFI and donor websites and official documents—including those of the World Bank—now recognise the importance of promoting "citizen ownership" of, or "citizen participation" in public policy processes (even if their primary contractual agreement at a country level is with the government). However our research indicates that:

- official IFI and donor policies do not always reflect actual practice at a country level;
- the models of participation promoted by the IFIs and donors in PRS processes, for example, while not entirely negative, have often been quite limited and exogenous to the country's own processes (as documented in Bolivia and Nicaragua);
- donor and IFI increased support for CSOs' policy monitoring and advocacy work is welcomed but is still lacking;
- civil society participation frequently fails to lead to civil society influence over public policies and/or their implementation.

A key question is what constitutes "the promotion of citizen ownership" and whether IFIs' and donors' perceptions of this concept are the same as CSOs' perceptions. For the World Bank, for example, it is about giving voice to citizens' concerns and helping to ensure that their views are factored into policy and programme decisions (See IDEA/World Bank "Experiences with National Dialogue in Latin America: Main lessons from a roundtable discussion" San Salvador 2000 <http://siteresources.worldbank.org/CDF/Resources/elsalvaenglish.pdf>; see also World Bank press release for small grant programme in Albania intended to "support citizens ownership").

Whilst agreeing that these are important elements, many CSOs would highlight other elements such as the importance of recognising that government-led plans and priorities are not the sum total of "country ownership", that CSOs' strategies and activities outside government-led plans and priorities are also part of this concept, and that a diverse civil society independent of government can strengthen democratic pluralism (and by implication national ownership).

Memorandum submitted by Christian Aid

EXECUTIVE SUMMARY

Christian Aid works in nearly 50 countries worldwide, supporting local organisations to deliver urgently needed services directly to poor communities, and to scrutinise and hold their own governments and the international community to account. Through public campaigning and advocacy on debt and trade justice, Christian Aid has built an expertise on the work of the World Bank and the International Monetary Fund (IMF) in developing countries, and has established strong links with civil society organisations and policy institutions working on economic justice issues throughout the world.

It is vital to regularly evaluate the UK's relationship with major multinational institutions, especially as the twin drivers of increasing aid budget and a staffing cap mean increasing sums of UK tax payer money will go through these institutions. Christian Aid therefore welcomes the decision of the IDSC to launch the inquiry into the institutional relationship between the UK and the World Bank and looks forward to its report. This submission will focus on the contribution of the World Bank to economic growth, poverty reduction and country-owned policy making. It will then address the broader reform agenda for World Bank, finishing with some analysis and recommendations around UK influence within the institution.

OUR RECOMMENDATIONS FOR THE UK GOVERNMENT ARE AS FOLLOWS

1. Develop a position on substantial structural reform of the World Bank to inform UK negotiating positions as the World Bank's medium-term strategy is developed.
2. Link funding of the next replenishment of the International Development Association (IDA 15) funding to a phasing out of the use of World Bank economic policy conditions and funding for fossil fuel-emitting projects.
3. Put pressure on the World Bank to strengthen and implement the Good Practice Principles (GPP) on conditionality, including regular *independent* monitoring of the institution's performance.
4. Ensure the World Bank's policy advice assesses the potential impact of that advice on poor people and supports developing country governments to consider the range of policy options available.
5. Promote the removal of policy performance criteria in the aid-allocation framework and focus instead on minimum requirements in probity in public financial management.
6. Support developing countries to have much greater control over analytic and advisory work, and scale down the research funds going through the World Bank, with greater allocations to developing country research institutions.
7. Critically evaluate the institution's model of development and how far it is compatible with pro-poor growth in a climate-constrained world.
8. Support the World Bank to shift its focus on foreign direct investment, by supporting the development of the local private sector, particularly small- and medium-size enterprises.

INTRODUCTION

1. Last year our concerns about the World Bank's misuse of its policy influence compelled us to start campaigning for the UK government to shift funding away from the institution or make their financial contributions contingent on phasing out economic policy conditions. Our concerns are shared by charities and their supporters across the UK and Europe.⁶⁷

2. We commend the UK government for the progress it secured in the last IDA funding round in improving World Bank conditionality. However, we find that the job is only partly finished. While practice at the institution remains only partially improved and continues to substantially differ from UK policy, it is vital for the UK government to continue to press this issue through linking its funding for the next funding round to a phasing out of economic policy conditions. In addition to which it must continue to closely monitor new mechanisms through which the World Bank promotes preferred policies.

3. Christian Aid's position is that as the UK's aid budget substantially increases, it must look to other multilateral sources to channel those funds. However, if the UK continues to channel substantial funds through the World Bank, it must prioritise a reform agenda that seeks substantial changes to the structure and ways of working at the institution, and allows it to play a more facilitative role for the home-grown development agendas of developing countries.

CRITICISMS OF THE WORLD BANK

4. The following sections summarise Christian Aid criticism about the World Bank's contribution to economic growth, poverty reduction and country-owned policy making.

Economic growth

5. The World Bank continues to promote a model of growth that relies substantially on the liberalisation of trade and finance, privatisation and deregulation. Their strategy has neither been good for growth nor for poverty reduction. Moreover, it has not addressed burgeoning inequality.

6. The institution has been relatively successful in rolling out this agenda, particularly trade liberalisation. Today African economies are among the most liberalised in the world.⁶⁸ However, this formula has not resulted in the growth gains predicted. Countries actually experienced faster growth between 1960 and 1980 than countries with similar starting points between 1980 and 2005, the era of structural economic reforms.⁶⁹

⁶⁷ See www.worldbankcampaigneurope.org

⁶⁸ The Commission for Africa, *Our Common Future: The Report of the Africa Commission 2005*, p 21.

⁶⁹ Mark Weisbrot, Dean Baker and David Rosnik, *The Scorecard on Development: 25 Years of Diminished Progress*, Centre for Economic and Policy Research, September 2005.

7. Where countries have seen increases in growth, it is largely due to increased prices for primary commodities and a few large-scale investments, such as an aluminium smelter in Mozambique, which has contributed to half of Mozambique's growth despite directly employing only 1,000 people.⁷⁰

8. This uncomfortable fact has not escaped the World Bank themselves. Last year's report from the World Bank's Independent Evaluation Group (IEG) found that far from promoting growth, some trade reforms have led to de-industrialisation where "the speed of import liberalisation increased competitive pressures in countries that were unable to generate dynamic and sustained manufacturing growth".⁷¹ Further internal evaluations have also admitted to an over-optimistic approach to privatisation, citing evidence that all but one of economically best-performing countries "have not implemented large-scale privatisations and have borrowed less than the other countries for privatisation".⁷²

9. Perhaps now more than ever it is vital to radically reconsider the World Bank's growth formula, refocusing it directly towards building the potential of poor people to increase their incomes and access essential services. Such a formula must also address the need to promote low-carbon development while addressing the lack of energy in poor communities. This largely means promoting smaller-scale, renewable, off-grid technologies. Yet the main focus of the World Bank is on supporting large-scale power generation, largely to supply industry.⁷³

Poverty reduction

10. Basic income indicators reveal that poverty in the developing world is falling; however take out India and China and those statistics look very different. It is important, however, to look beyond income poverty data. Comparing social indicators between countries with similar starting points from 1960 to 1980 and 1980 to 2005 reveals that in a variety of social indicators—including life expectancy, mortality rates, public spending on education, secondary school enrolment and primary school enrolment—the improvements in the second period were less than in the previous period.⁷⁴

11. The blame for this decreasing rate of poverty reduction cannot be laid entirely at the door of the World Bank. Other factors—such as fluctuations in commodity prices, general aid volatility and conflict and natural disasters—also played a role. However, such evidence does undermine claims that the reforms favoured by these institutions have helped the international community achieve its commitments to poverty reduction. In addition to which, there are numerous cases where World Bank strategies have directly caused poverty.⁷⁵

Box 1: Electricity privatisation in Nicaragua⁷⁶

Nicaragua was required to privatise its electricity sector in 1998 as a condition of World Bank and IMF lending linked to both loans and debt relief. Today the ramifications of that decision are still being felt by Nicaraguans, according to research by Christian Aid and the Nicaraguan Consumer Defence Network.

Unión Fenosa, a Spanish firm, was the only bidder to run the distribution companies, so it bought an effective monopoly over electricity distribution. Most of the electricity generation firms were also privatised as a result of the conditions.

Despite the repeated promises that bringing in private companies to run the electricity sector would result in significant investment, this has not happened, a fact which the World Bank openly admits. Instead infrastructure remains poorly maintained and no technology upgrading has occurred. Investments to improve coverage of the national grid (particularly in rural areas) have come mainly from the state, at a cost of US\$23 million in new loans.

Privatisation has also resulted in many adverse effects for Nicaraguan consumers. The quality of the service has worsened and severe power cuts have been more pronounced in the past two years. Rolling blackouts have created havoc for the private sector, with small businesses (who cannot afford to run their own generators) particularly feeling the brunt. Many small businesses have folded as a result of interruptions to their production and local business associations have reported multimillion dollar losses.

⁷⁰ Carlos Nuno Castel-Branco and Nicole Goldin, *Impacts of the Mozal Aluminium Smelter on the Mozambican Economy*, September 2003, p 32.

⁷¹ Bretton Woods Project, *Over-optimistic about Trade Liberalisation: World Bank Trade Evaluation*, April 2006.

⁷² Bretton Woods Project, *OED Slates Bank development Effectiveness*, November 2005.

⁷³ Bank Information Centre, Bretton Woods Project, Campagna per al Riforma della Banca Mondiale, CEE Bankwatch Network, Friends of the Earth International, Institute for Policy Studies, International Rivers Network, Oil Change International, Urgewald, *How the World Bank's Energy Framework sells climate and poor people short: A civil society response to the World Bank's Investment Framework for Clean Energy and Investment*, September 2006.

⁷⁴ Mark Weisbrot, Dean Baker and David Rosnik, *The Scorecard on Development: 25 Years of Diminished Progress*, Centre for Economic and Policy Research, September 2005.

⁷⁵ The trade evaluation found that in some places trade reforms had left people impoverished. See footnote 63.

⁷⁶ Claire McGuian, *The impact of World Bank and IMF conditionality: an investigation into electricity privatisation in Nicaragua*, Christian Aid, May 2007.

Spiralling costs have also adversely affected consumers who have had to pay much higher bills, even in the face of a deteriorating service. Significant increases in the electricity tariff have been compounded by arbitrary charging practices by the monopoly distribution company, resulting in customers being over-billed or paying for services—such as street lighting—that are not being provided.

As the blackouts have grown worse, there are serious grounds to suspect that the generators and the distributor have colluded to cause crisis-inducing power cuts to force the government to grant subsidies and to allow higher tariffs to be charged to consumers. In the end, passing on higher tariffs to consumers has taken the place of improvements in efficiency and investment, which would be needed from private companies to operate a good-quality—and more profitable—service.

Perhaps the key finding from Christian Aid's research in Nicaragua is that the electricity system cannot function on a commercial basis. Losses of electricity and theft from the poorly maintained, inefficient infrastructure, the spiralling costs of oil upon which much of the generation depends and the generous private sector margins which were written in to the privatisation contracts (in addition to the cost of all the investment which would be necessary to correct this situation), mean that paying consumers are very far from being able to afford to cover the full costs of the service.

The Nicaragua experience is not unique. Similar problems arose in the Dominican Republic after energy-sector privatisation in 1999, forcing the government to undertake a very costly re-nationalisation of the electricity distribution companies it had sold to Unión Fenosa in 2003. A forthcoming analysis of conditions in 16 countries since the World Bank agreed to reform its approach to conditionality, showed that one third of the countries had conditions in their loans related to the participation of private companies in electricity sectors⁷⁷ and most are likely to have similar issues to Nicaragua—such as extremely degraded infrastructure, high technical losses of electricity from their systems, limited grid coverage and a large number of poor customers with a limited capacity to respond if basic service's costs are pushed out of their reach.

Policy influence

12. The World Bank has pursued this agenda with vigour, largely through making requirements for certain economic reforms in return for grants and loans. Christian Aid has been pushing the institution to cease using policy conditions generally, but particularly those around liberalisation and privatisation.

13. The use of policy conditionality has been criticised for pushing countries to adopt inappropriate policy reforms as well as undermining:

- country ownership, which has been shown to be the main driver in successful development initiatives;
- accountability between states and their citizens, as states remain more accountable to their donors; and
- the effectiveness of aid because the suspension of aid linked to failure to meet conditions contributes to the substantial problem of aid volatility.

14. Under pressure from the UK government, the World Bank committed to first review and then reform its use of conditionality. It set five principles to guide its lending, including ownership; harmonisation; customisation; criticality; and transparency and predictability. These principles are not as comprehensive as many NGOs had hoped, but they nevertheless represent a step forward.

Changing practice?

15. Economic policy conditions are falling, according to the World Bank. However, a forthcoming Eurodad analysis of a sample of 16 countries who have received World Bank funding since the GPP were agreed found that 24 per cent of all conditions were economic policy conditions, an average of 11 per loan. Twelve per cent of those loans were to pave the way, implement or consolidate privatisation reforms.⁷⁸

16. Most of the conditions reclassified as economic policy were defined by the World Bank as public sector governance. This supports criticisms that the Bank is not shifting from economic liberalisation to governance. Rather governance reforms accompany economic reforms or may themselves have substantial economic development implications.

⁷⁷ Eurodad analysis of a sample of 16 countries from the World Bank conditionality database—forthcoming.

⁷⁸ See reference 69.

17. Many of the countries in the Eurodad sample had conditions around public procurement, most of which were prior actions. Many developing countries urgently need to overhaul their procurement systems to make them more simple, transparent, and accountable. However World Bank analysis and support often directs recipient countries to open up their procurement markets to foreign firms, with whom local firms can struggle to compete.⁷⁹

Beyond conditions

18. As well as attaching conditions to grants, loans and debt relief, the World Bank also exerts powerful policy influence through its analytical work and technical assistance. In addition to which, it is increasingly using ranking mechanisms to score countries against each other, rewarding with higher points countries that are implementing favoured policies.

19. The Country Policy and Institutional Assessment (CPIA) is a particularly controversial version of this system. The CPIA is used to guide aid allocation, not only for the World Bank but also for other donors, including DFID. It also influences strategy, for example CPIA indicators are used in DFID country governance assessments. Rankings such as the CPIA can have a clear impact on governments' policy space.

20. A similar approach guides the World Bank's Doing Business Indicators (DBI), which compile information about specific regulations⁸⁰ for all countries to produce "name and shame" rankings that are perceived as reflecting countries' attractiveness to foreign investors. This is a complement to Foreign Investment Advisory Service (FIAS) assessments, Investment Climate Surveys, and Investment Climate Assessments, which are used to identify policy reforms to promote foreign investment. The DBI rankings can have a significant influence on countries' policies; for example, Mauritius has set itself the goal of reaching the top 10 by 2009. The indicators are also used to set targets as conditions; for example Ghana is required to go from 102 to 94 under its current performance assessment framework for multi-donor budget support.

21. Christian Aid is particularly concerned about the policy advice related to investment promotion and how this is affecting the reform of often already highly regressive tax systems in developing countries. The importance of taxation and particularly the application of progressive, direct taxes on businesses, is not reflected anywhere in the investment advice and investment rankings given to developing countries. Instead the World Bank's *Doing Business in 2007* report⁸¹ makes clear that lowering taxes is one of the reforms which is most often promoted.

22. Taxes should not be viewed as a simple "cost of doing business". There is a difference between the positive tax contribution of businesses and the burden placed on businesses by complex, bureaucratic and inefficient regulation (which may merit reform). Taxes paid by businesses are essential contributions to finance public services, such as schools or roads, in developing countries, and also contribute directly to making businesses function better and be more productive. Ironically, most investment promotion literature identifies poor infrastructure and the lack of education and poor health of workers as some of the most important obstacles to investment.

23. The DBI is also based on questionable assumptions about what will attract foreign direct investment (FDI)—there is no strong evidence that tax breaks and investor protection rules, for example, are a strong draw. Rather FDI seems to follow key development factors such as market size, growth, levels of education and infrastructure development.⁸²

24. UK NGOs, including Christian Aid, have called upon the UK government to reduce the use of policy performance criteria to minimum requirements of probity in public financial management and conduct an independent review of CPIA.⁸³

25. On DBI, instead of promoting preferred reforms through its various tools, the Bank should work to provide impartial analysis and support national consultation mechanisms to identify infrastructure spending, regulatory reforms and policy that would support local private sector development, especially small- and medium-size enterprises, and assist developing countries to manage the impact of foreign direct investment.

⁷⁹ This is certainly the evidence we have found from our research on the impact of procurement reform in Ghana. Christian Aid research, forthcoming.

⁸⁰ The categories are: Starting and business, Hiring and firing workers, Enforcing contracts, Getting credit, Closing a business, Registering property, Dealing with government licences, Protecting investors, Paying taxes, Trading across border. The *2007 World Bank Overview* states that transparency of government procurement and quality of business infrastructure will be added shortly.

⁸¹ World Bank/IFC, *Doing Business in 2007: how to reform*, 2007.

⁸² UNCTAD *Economic Development in Africa: Rethinking the Role of Foreign Direct Investment*, 2005.

⁸³ Christian Aid, Oxfam, Bretton Woods Project, Jubilee Debt Campaign, Action Aid, Submission to DFID, July 2007. Available on request.

26. The use of rankings like this undermines the pursuit of home-grown development policies. Instead the focus should be on supporting developing countries to analyse the pros and cons of different policy options through poverty and social impact analysis (PSIA). The UK government has done a valiant job trying to raise this up the World Bank's (and other donors') agenda; however a joint NGO research found that this agenda was being de-prioritised by the Bank. Continued pressure to address this is vital.⁸⁴

STRUCTURAL PROBLEMS AT THE WORLD BANK

27. It is not just adherence to a different economic theory that leads the World Bank to use its leverage to coerce countries to adopt favoured policies. It stems also from the structure and mandate of the institution. The institution relies partly on the interest and capital repayments to keep the money flowing out. Not surprisingly then, the World Bank favours reforms that could free up budgetary resources for repayment through selling assets and reducing the states' involvement in areas that might leave their books unbalanced.

28. The asymmetry of power embedded in the institution also plays a key role. The most visible symbol of this has been the horse-trading in the past year between US and EU member states to put their favoured candidate into the leadership of the IMF and World Bank. Despite constant talk of reform, the status quo was upheld with the appointments of an American (Robert Zoellick) and a Frenchman (Dominique Strauss-Khan) to head up the World Bank and IMF respectively.

29. The World Bank has been increasingly set up as a "knowledge bank". There are mixed incentives at play, however, if the same institution that disburses a significant proportion of multilateral lending also has responsibility for defining and disseminating best practice in economic, social and political development. This was clearly seen in the highly critical evaluation of the World Bank research.⁸⁵ It stopped short of questioning whether the Bank should play this role, which is broadly upheld in official circles, but its criticisms of World Bank research—predominantly that research is used to support Bank policy rather than used to reflect and potentially challenge Bank policy—could well lead to that conclusion.

30. There *is* a substantial debate on the role of the state in development. There is a continuum between the state-led fully interventionist model on the one hand and the more liberal, non-interventionist state that looks to the market to stimulate development. The World Bank has made a normative judgement in placing itself on one side of this spectrum, which is largely what leads to claims of bias in its research agenda. As an institution with different components, including (International Development Association (IDA), International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), Bank for International Settlements (BIS)), some degree of coherence between the different elements is important. However, we are concerned that what is being cohered to is the above normative model. This is likely to increase if IDA is part-funded by IFC capital and interest payments as well as those of IBRD.

REFORM AGENDA

31. There is a role for a multilateral agency to provide development assistance to the world's poorest countries and concessional loans to fund the further development and anti-poverty programmes of emerging economies. We welcome the UK's commitment to multilateralism. However, we feel that substantial structural reforms are required if the World Bank is really to be "fit for purpose" in the changing global landscape.

32. Zoellick recently launched consultations to develop a new medium-term strategy at the World Bank, which provides the UK government with the opportunity to develop a vision of what the individual Bank components *are* doing and *should* be doing, as well as how they relate to one another.

33. In our 2006 report *Challenging Conditions: A new strategy for reform at the IMF and World Bank*⁸⁶ we called for the following reforms:

- The IDA should become an independent grant-giving agency, allocating funding without economic conditions. There should be a separate governance structure, giving a more equal weight to customers (low-income countries) and donors.
- The IBRD should remain a loan agency, allocating loans without economic policy conditionality. There should be a separate governance structure, giving a more equal weight to customers (middle-income countries) and donors.

⁸⁴ Bretton Woods Project, CAFOD, Christian Aid, Eurodad, New Rules for Global Finance, Norwegian Church Aid, Oxfam, Save the Children UK, Trocaire, Water Aid, *Blind spot: the continued failure of the IMF and World Bank to fully assess the impact of their advice on poor people*, September 2007.

⁸⁵ Angus Deaton *et al*, *An Evaluation of World Bank research 1998-2005*, January 2007.

⁸⁶ Christian Aid, *Challenging Conditions: A strategy for reform of the World Bank and IMF*, June 2006.

- The World Bank should both separate the provision of grants and loans from technical assistance and policy advice, and DFID should break the Bank's monopoly on knowledge by supporting the consolidation of other organisations conducting research and providing advice to developing countries.
- Both institutions should undertake reforms to make their boards and management more accountable to recipient country citizens and parliaments, and to the governments and parliaments of all member countries.

DFID's Influencing Role at the World Bank

34. We welcome the fact that DFID considers it a priority to influence the World Bank. Normally this is carried out through negotiations at board and senior management levels and often in the countries where we work.

35. In Latin America, the DFID regional programme has placed influencing the World Bank as well as the Inter-American Development Bank at the heart of their programme. A recent evaluation has shown that this strategy is only partly successful, as it focuses on influencing at the level of its specific projects.⁸⁷ As DFID Latin America is channelling significant resources through the IFIs, we feel DFID cannot ignore the fundamentals of the World Bank and IADB agreements with Latin American countries, particularly when conditions are being imposed. Christian Aid has lobbied DFID to make these policy reforms central to their engagement with IFIs in Latin America. Unfortunately staff have repeatedly made clear it is neither within their mandate or power to influence loan conditions which are placed on countries in the region. Our engagement has therefore shown us the continued need for real change at headquarters level.

36. Because of the World Bank's multilateral nature it can take a long time for a progressive reform agenda to take place, which is not made easier by the numerous priorities DFID has at the World Bank. While we appreciate these constraints, in many of the countries where we work time is of the essence. It is not just the potentially devastating impacts of some of the reforms that will get agreed in this time, but the time it could take to rebuild those sectors and the time lost to supporting developing country governments to identify the best way to reform.

37. Linking the IDA 15 contribution to progress on conditionality played a key role in speeding up this process. It compelled the World Bank to review its conditionality and agree some progressive reforms. And when the World Bank failed to report comprehensively about implementation of those reforms, the threat of keeping back money was used well by Hilary Benn to give his negotiations extra clout. Without doubt the progress seen thus far would not have been seen if it had not been for this strategy.

38. The job, however, is only partly finished. As ever considerable effort needs to be made to shift from policy change to practice change. And while the practice of aid conditions remains only partially improved, and substantially differs from UK policy, it is vital that the UK shows its continuing commitment to this reform by linking its funding for the next funding round to a phasing out of economic policy conditions.

39. Christian Aid's position is that as the UK's aid budget substantially increases, it must look to other multilateral sources. However, the UK has made clear its continuing desire to work in close partnership with the World Bank. We therefore believe the UK must prioritise a reform agenda that seeks substantial changes to the structure and ways of working of the World Bank that allow it to play a more facilitative role for the home-grown development agendas of developing countries.

OUR RECOMMENDATIONS FOR THE UK GOVERNMENT ARE AS FOLLOWS

1. Develop a position on substantial structural reform of the World Bank to inform UK negotiating positions as the World Bank's medium-term strategy is developing.
2. Link funding of the next replenishment of the International Development Association (IDA 15) funding to a phasing out of the use of World Bank economic policy conditions and funding for fossil fuel-emitting projects.
3. Put pressure on the World Bank to strengthen and implement the Good Practice Principles (GPP) on conditionality, including regular *independent* monitoring of World Bank performance.
4. Ensure the World Bank's policy advice assesses the potential impact of that advice on poor people and supports developing country governments to consider the range of policy options available.
5. Promote the removal of policy performance criteria in the aid-allocation framework and focus instead on minimum requirements in probity in public financial management.
6. Support developing countries to have much greater control over analytic and advisory work, and scale down the research funds going through the World Bank, with greater allocations to developing country research institutions.

⁸⁷ David Booth *et al*, *Interim evaluation of DFID regional assistance programme for Latin America*, January 2007 p 11.

7. Critically evaluate the institution's model of development and how far it is compatible with pro-growth in a climate-constrained world.

8. Support the World Bank to shift its focus on foreign direct investment, by supporting the development of the local private sector, particularly small- and medium-size enterprises.

October 2007

Memorandum submitted by Diana Conyers, Institute of Development Studies, University of Sussex

INTRODUCTION

1. The views expressed in this submission are based on my knowledge of the development literature (see select bibliography attached) and, in particular, my personal experience in development work (mainly in Africa) over the last 40 years.

OVERVIEW

2. I believe that channelling increased amounts of funding through the World Bank will hamper DFID's efforts to:

- implement the 2006 White Paper on Eliminating World Poverty;
- assist in achieving the Millennium Development Goals (MDGs);
- implement the recommendations of the 2005 Africa Commission; and
- meet its commitment to the 2004 Paris Declaration on Aid Effectiveness.

3. I suggest that there are four main reasons why this will be the case:

- (a) The Bank is not sufficiently committed to reducing poverty and inequality;
- (b) The Bank's mode of operation discourages local ownership and good governance;
- (c) The Bank's governance structure and influence on development discourse discourages constructive debate, particularly by representatives of developing countries; and
- (d) The Bank's technocratic approach ignores the political realities of development.

4. These four points are elaborated below.

THE BANK IS NOT SUFFICIENTLY COMMITTED TO REDUCING POVERTY AND INEQUALITY

5. DFID is committed to reducing poverty and inequality. This is explicitly stated in its 2006 White Paper and implicit in its commitment to achieving the MDGs and implementing the recommendations of the Africa Commission. In recent years the Bank has also expressed a commitment to reducing poverty and, since the publication of its 2006 *World Development Report*, inequality. However, the extent of this commitment is constrained by two factors:

- As a bank, its main role is to lend money and it has to operate on a commercial basis; even the "soft" loans administered through the International Development Association (IDA) have to be repaid.
- It remains committed to "neo-liberal" policies, such as privatisation and free trade, which in many countries have had a negative impact on poverty and, in particular, inequality.

THE BANK'S MODE OF OPERATION DISCOURAGES LOCAL OWNERSHIP AND GOOD GOVERNANCE

6. DFID is committed to local ownership of development policies and programmes and the promotion of "good governance". This is reflected in the White Paper, which is sub-titled *Making Governance Work for the Poor*, and in its commitment to the 2004 Paris Declaration and 2005 Report of the Africa Commission. However, the Bank's mode of operation discourages local ownership and good governance. It adopts a "blueprint" approach to development; it has preconceived views regarding the types of policies and programmes that are required and its project planning and management system is inflexible and bureaucratic and relies heavily on external consultants. This approach discourages a sense of local ownership and commitment within recipient governments and does little to develop the capacity to develop policies and programmes, which is an essential component of "good governance". DFID's experience in Africa has shown that a more flexible, "learning process" approach is far more likely to create the local commitment and capacity development that is essential for sustainable development.

THE BANK'S GOVERNANCE STRUCTURE AND INFLUENCE ON DEVELOPMENT DISCOURSE DISCOURAGES CONSTRUCTIVE DEBATE, PARTICULARLY BY REPRESENTATIVES OF DEVELOPING COUNTRIES

7. The failure of conventional neo-liberal policies to address poverty in many parts of the world (see point 1 above) suggests the need for an open debate about alternative development strategies, while the importance of local ownership and capacity development (see point 2 above) suggests that developing countries must play a major role in any such debate. DFID should thus be assisting developing countries to formulate their own development policies, based on an analysis of their own particular situations. However, it is difficult to do this through the Bank. The Bank uses its dominant role in the generation, promotion and dissemination of development thought to promote neo-liberal policies and its governance structure makes it difficult for developing countries to put forward alternative perspectives. This was most obvious in the case of structural adjustment policies, but is also evident in the Poverty Reduction Support Papers (PRSPs), which have replaced structural adjustment as the Bank's preferred basis for channelling multilateral and bilateral aid. PRSPs are supposed to be formulated by recipient governments in a participatory manner; but in practice the scope for local inputs has been very limited, because the Bank has a major influence on both their content and their format.

THE BANK'S TECHNOCRATIC APPROACH IGNORES THE POLITICAL REALITIES OF DEVELOPMENT

8. In recent years, DFID has become increasingly aware that "development" is a complex process that cannot simply be "designed" and that political interests play a major role in the formation and implementation of development policies. This is reflected in the 2006 White Paper and in recent governance-related strategies, such as the "drivers of change" approach. However, the Bank tends to underestimate the impact of politics. This is due partly to the limitations of its mandate, which prevents it from engaging in politics. However, it also reflects its approach to development, which is 'technocratic' in nature. Since the widespread failure of structural adjustment policies, the Bank has recognised that institutions are important; one has to get the right institutions as well as the right policies. However, getting the right institutions is regarded as a process of technical design rather than one of political negotiation.

Memorandum submitted by Environmental Defense

The Chad-Cameroon Oil and Pipeline Project, which at a cost of \$4.8 billion is the single largest investment in Sub-Saharan Africa today, also raises questions about the larger picture of World Bank Group support for extractive industries in countries with dismal human rights records, little political will and capacity to address the environmental and social risks of such projects and where armed conflict is a latent problem.

Why should the World Bank Group be held responsible for a project that has been built and is being operated by an international consortium led by Exxon-Mobil with participation of Chevron and the Malaysian national oil company Petronas? It is because the project would not have been built without the World Bank Group. Exxon Mobil stated from the beginning that it would not move forward with the project without World Bank Group participation. Not that Exxon Mobil needed a few hundred million dollars from the World Bank Group (the WBG contributed only about 3% of project costs). Exxon wanted two things: World Bank Group participation would provide political risk insurance in a politically volatile region and it would help attract other financial institutions to the project. And indeed, when the World Bank approved financing for the project in June 2000, the European Investment Bank, the U.S Export-Import Bank, the French export-credit agency COFACE and a whole host of private banks contributed financing to this mega-project—which they would not have done without the seal of approval provided by the World Bank Group and its main shareholders, including the United Kingdom.

Largely in response to intense public scrutiny of the project when it was first being considered, the World Bank devoted unprecedented resources into the preparation of the project to address the management of the oil revenues and environmental protection. Never in its history, had the WBG carried out such detailed project preparation for any project it considered financing.

The preparations included the design of a detailed revenue management system for Chad which was meant to ensure that income generated by oil exports would contribute to the overall social development of one of Africa's poorest countries. Then there was a stack of 19 volumes of environmental impact assessments and the establishment of two project monitoring bodies to monitor and prepare reports on the implementation of the project's environmental and social management on-the-ground.

In addition, the World Bank approved the financing for separate technical assistance loans to both Chad and Cameroon with the goal of strengthening the capacity of the governments to address the environmental and social consequences of a project of this magnitude. In the case of Chad, this included technical assistance to manage the oil revenues and in the case of Cameroon to implement a plan to protect the indigenous peoples living in the southern portion of the pipeline before it enters the Atlantic Ocean.

Unfortunately, these technical assistance projects, which were to be carried out simultaneously with the building of the oil project, soon fell behind and in parts never got off the ground—while construction of the project advanced faster than expected. As a result, the capacity of the governments to deal with the project is not in place as of today—even after oil has been flowing for several years.

The WBG had justified the use of scarce development aid funds for a major oil project on two grounds:

- (i) that the income from oil would be used to reduce the extreme poverty of ordinary Chadians; and
- (ii) that the project would be carried out in an environmentally and socially sound manner.

Yet despite the extra-ordinary measures taken by the World Bank Group, the project has failed on both these counts.

In Chad, people have become even more impoverished—especially in the oil-producing region. In recent years Chad has further slipped on the United Nation's Human Development Index which measures basic indicators of human well-being such as health and education. In addition there is ample evidence that Chad's oil money is further fueling violence—especially on Chad's border with neighboring Sudan's Darfur region.

The International Advisory Group (IAG), which monitors the project on behalf of the World Bank, stated in its latest report:

“With Chad entering its fourth year of oil income, the IAG wanted to devote this mission to evaluating the results that Chad had achieved using the oil revenues since 2004. However, the lack of hard data about most of the ministries' accomplishments made this task difficult, if not impossible” (IAG Mission Report of 18 July 2007).

A fact-finding mission to Chad and Cameroon undertaken on behalf of the Parliamentary Committee for Economic Cooperation of the German Bundestag concluded in its report:

“The construction of the Pipeline has not solved the real problems in Chad, indeed it has even exacerbated them; this can be seen, for instance, in the overuse of soil due to increasing population pressure and the spread of AIDS. No improvement in the situation of the people could be seen in either country. Instead, there were concerns about a creeping deterioration in their living standards. The civilian population is in some cases very well organised, yet has only very limited opportunities to demand participatory rights and grass roots democracy” (Report of visit to Chad and Cameroon, 16–26 January 2007).

In Cameroon, in whose larger economy, the royalties from oil matter much less than in Chad, people along the pipeline have been impoverished—for example by contaminated water wells, while the country's indigenous Pygmy people now see their survival as a people under severe threat. The pipeline traverses their ancestral homeland, Cameroon's Atlantic Tropical Forest and has brought significant outside pressure on the forest resources on which their livelihoods depend. A special trust fund of \$600,000 for a period of the 28 year life of the project had been set aside to benefit the indigenous peoples—I do like to compare it to the generous retirement package of \$400 million of former Exxon Mobil CEO Lee Raymond—who headed the company at that time. But even the paltry funds in the trust fund do not reach the indigenous peoples and its capital is being exhausted by the bureaucratic structures set up to manage it.

But these results are not reflected in the World Bank's Project Completion Report—this report is produced at the end of the Bank's active involvement in a project and is meant not only to evaluate the Bank's accomplishments in a project but also as a learning tool for similar Bank projects in the future. According to the ratings in the Project Completion Report, the outcome of the project is satisfactory, as is Bank's and the Borrower's performance.

How little sense this rating makes, become obvious even in the Bank's own documents. A recent new technical assistance loan for Chad states clearly that Chad's situation has become even more precarious with the arrival of oil revenues: *“As security and defense spending grow, poverty reduction and lasting economic and institutional reforms are losing ground to an unsustainable deficit and mounting budgetary arrears.”* (Project Appraisal Document—US \$ 10 million approved on April 27, 2007)

There had been early warnings that this was likely to occur. Chadian civil society organizations had pleaded with the World Bank to postpone financing of the project until there were some guarantees in place concerning the protection of human rights and the capacity to address the environmental consequences of the project. It is noteworthy that NGOs did not oppose the project—but called for a minimum set of conditions to be in place before launching such a massive investment.

Interestingly, the World Bank commissioned Extractive Industries Review of 2004, a study on the contribution to sustainable development of World Bank Group-financed projects in oil, gas and mining led by Emil Salim, a former minister for Population and Environment of the Suharto government in Indonesia, reached a very similar conclusion. One of its central recommendations was that the World

Bank Group should sequence its support for extractive industries by first ensuring that a minimum of good governance conditions concerning respect for human rights and the environment be in place before investing in these sectors if such investments are to have positive development impacts.

QUESTIONS

Follow-up Extractive Industries Review

Based on the experience of this project, will the WBG revisit the Extractive Industries Review recommendation about proper sequencing of investments and adopt such an approach to ensure that extractive industry investments contribute to poverty reduction and sustainable development, the two twin goals of WBG activities? An answer to this question has become even more relevant now that the International Finance Corporation, the private sector lending branch of the World Bank Group, has increased its investments in African mining projects six fold over the past year (\$50 million in FY 2006 and \$300 million in FY 2007) and hopes to be investing \$1 billion annually in Africa—much of it for oil and mining projects—driven by high commodity prices. All too often the environmental and social consequences of large capital-intensive projects far outweigh the potential development benefits.

Governance indicators

What kind of governance indicators is the Bank taking into consideration when deciding on investments in extractive industries?

SPECIFICALLY ON THE CHAD-CAMEROON PROJECT

Livelihood Restoration

The oil project is taking much more land from local peasant communities than the project's Environmental Management Plan predicted. This is largely due to the fact that many more oil wells are being drilled and connected to crude oil processing facilities—a process known as infilling. In addition, new satellite oil fields (Nya and Moundouli) have been created. Yet although the land is taken from largely subsistence farming communities who risk being driven into utter destitution, there is no monitoring in place to ensure that they can restore their livelihoods.

What measures are being taken to ensure the restoration of livelihoods of the affected communities and households in the oil-producing region and what will be the participation of the affected people themselves in designing these measures? Why is the regional development plan promised in 2000 still not in place 7 years later?

Indigenous peoples

Seven years after approval of Chad-Cameroon project by the WBG, it has been clear that the Cameroonian foundation set up to implement the Bank's Indigenous Peoples Policy is dysfunctional and that, moreover, there are insufficient funds to support the promised programs in health, education, etc. What actions will the WBG undertake to ensure that Bakola/Bagyeli communities are protected and receive recognition of their ancestral rights to the forest lands they have occupied since time immemorial?

New Technical Assistance Project

What evaluation has been carried out on the first technical assistance projects to Chad that has helped shape the new technical assistance grant approved in April 2007?

New Oil

When the World Bank approved financing for the Chad-Cameroon project, the loan agreements signed included a clause stating that all additional oil—outside of the original project—and eventually passing through the pipeline would have to comply with World Bank environmental and social safeguards. The Bank's Project Completion Report now admits that enforcing this clause will be problematic. It does not seem to be a healthy precedent that governments and the private sector can simply ignore legal agreements when convenient. How will the Bank address this problem?

3 October 2007

Memorandum submitted by International Alert

KEY POINTS

- All aid has local political impacts, and local politics affect all forms of external engagement. Recognition of these interactions has fundamental implications for how the UK conceives its approaches to international development, including through multilateral institutions. The challenges are particularly acute in conflict-affected and fragile states because a failure to understand power relations and social dynamics in such settings risks not only ineffective assistance but also that aid itself becomes a resource worth competing, or even fighting, for.
- For a number of years, specialist teams in the Bank have been generating knowledge on conflict-related issues, and have played an important role in international efforts to improve aid effectiveness in fragile states and situations. They are also working to better adapt institutional procedures, allocation systems and project implementation capacity to the particular challenges faced in these contexts.
- Despite these efforts, the practice of the Bank, institution-wide, still trails behind. The direction and country-level decision-making of the Bank is dominated by economists who have insufficient incentives to take account of political and social issues. A high premium is placed on quantitative data (whose collection is often flawed) and technical statistical “results”, while much less attention is paid to power dynamics, relations between civil society and the state, and the spatial, gender or identity group distribution of the aid provided.
- Efficiency tends to be conflated with effectiveness and the absolute quantity of disbursements too often seems the benchmark by which “success” is measured. Bank development professionals tend to focus on the endogenous, Bank system-related factors of a “successful” project and underplay the exogenous, context-related issues which determine the quality of outcomes over time for the country’s people, not least in terms of governance relationships.
- In recent years, the UK has manifested a genuine ambition to improve its approach to the particular challenges that arise from conflict and “fragility”. The recent Public Service Agreement includes a commitment to achieving “more effective international institutions, better able to prevent, manage and resolve violent conflict and build peace”. But the UK does not accord enough attention to the Bank’s way of working in fragile and conflict-affected contexts. This is unacceptable because the government’s accountability for development spending includes the hundreds of millions of pounds allocated to the Bank.
- The UK’s principal message to Senior Management through the Bank’s Board should be: (i) conflict/fragility is not a “thematic” issue, involving discrete programmes and units that are “tacked on” to the “standard” way of working, but is rather fundamental to the context in which all types of programmes and approaches are taking place; (ii) raising the quality of assistance is expert labour-intensive, and requires that staff be sufficiently numerous and skilled, as well as properly located, to formulate and follow through on strategies and projects.
- DFID (in London and in-country) must increase its own human resource capacity and allocation so that staff can properly engage with Bank staff on their decision-making. At a minimum, this means strengthening the conflict/fragility expertise of its IFI unit and the extent to which DFID/CHASE can track and support multilaterals beyond the UN (and EC) in support of IFID. Indirectly, this would significantly improve the UK’s contribution to poverty reduction.

INTRODUCTION

1. The global effort to reduce poverty is often distilled into the Millennium Development Goals. These are technical, quantifiable targets by which the assistance of international development institutions, such as DFID and the World Bank, are measured and by which their performance is most often assessed. Yet the reality of development is that good intentions come up against the complexity of politics, identity and culture, stark inequities between sexes, as well as severely limited local economic opportunities. In these environments, all aid is political and politics impacts upon all forms of engagement.

2. In conflict-affected and fragile states (ie at least 40–50 countries worldwide)⁸⁸ the challenges to development are particularly acute. The often-desperate needs, fears and insecurity of populations sit alongside prejudice, discrimination, greed and poor governance. Recognition of these challenges is changing the way the UK conceives its foreign policy and its development policy, including how it interacts with multilateral development institutions like the World Bank.

⁸⁸ “There is no agreed global list of fragile states . . . One common way to estimate the level of fragility is derived from the World Bank’s Country Policy and Institutional Assessments (CPIA). CPIA scores divide low-income countries into five categories of performance, the lowest two of which are useful proxies for state fragility. There is a separate group of unranked countries, also deemed fragile. This provides a list of 46 fragile states. Middle-income countries are not included in this list”—from *Why we need to work more effectively in fragile states*, UK Department for International Development, January 2005

3. In recent years, the term “conflict sensitivity” has emerged in the discourse and commitments of a number of development organisations. The aim has been to ensure that, institution-wide and in all contexts, these organisations meaningfully take into account the context in which they are operating, and continuously adapt programme design and implementation in a way that maximises positive impacts while mitigating potential harm.⁸⁹ The concept has gained some currency in DFID and to some extent in the European Commission, but is not yet articulated as a priority for the World Bank (or for the UK’s expectations of it).

4. Given the influence of the Bank in wider development policy-making, and the strong possibility of ever-greater multilateralisation of aid (as articulated, for example, by Secretary of State Douglas Alexander in the House of Commons in November 2007), there is a growing need to influence the way that the World Bank works, and how it deals with, and adapts to wider, political events. Without greater and faster progress in improving the sensitivity of the World Bank to power relations and social dynamics in its operating contexts, particularly conflict/fragile ones, millions of pounds of UK taxpayer money not only risks being ineffective, but may also itself become a contested resource.

The World Bank and the 40–50 conflict-affected and fragile states

5. As a financier and provider of influential policy and technical advice in developing countries, the World Bank has very substantial direct and inadvertent impacts on local and national economic systems and governance, as well as cross-regional dynamics.⁹⁰ These activities are set within a framework defined by the Bank’s original charter: the “Articles of Agreement” which includes a requirement that “proceeds of any financing are used only for the purposes for which the financing was provided, with due attention to considerations of economy, efficiency and competitive international trade and without regard to political or other non-economic influences or considerations.”⁹¹ The Bank also plays a fundamental role in influencing the direction and characteristics of other aid and investment flows and in leveraging activities by governments who are accessing, or seeking to access, these external sources of funds.

6. The clause requiring Bank financing to be used “without regard to political considerations” has affected the Bank’s work. It is often used as a rationale for seeing and pursuing “development” as if it can be isolated from politics. The clause is, however, quite inconsistently interpreted in the Bank as certain staff members have sought to be more pragmatic in their approach. The understanding that the Bank’s operations cannot and should not be isolated from politics, and where relevant, conflict is one which is taken up on an ad hoc basis by staff of all levels in different places and different times.

7. The interpretation that the Bank gives to the “non-political” nature of its work is particularly important in fragile and conflict-affected countries. These constitute around half of the 88 countries that are eligible for International Development Association (IDA) funding. As DFID research has emphasised, these countries “cannot or will not deliver what citizens need to live decent, secure lives. They cannot or will not tackle poverty.” Moreover, many of these countries are affected by violent conflict which reverses economic growth, causes hunger, destroys roads, schools and clinics, and forces people to flee from their homes, often across borders. Women and girls are particularly vulnerable, suffering sexual violence, exploitation and prejudice as they seek to run households in the absence of men. Insecurity, too, can spill over into neighbouring countries with major effects on their development and economic growth. In these settings, “considerations of economy” necessarily include highly complex political economy issues that characterise and determine the operating context. Furthermore, economic issues (and decision-making) are unavoidably political.

8. There are a number of initiatives underway in the Bank which show a welcome recognition of the significance of these conflict and fragility issues to its work. In pure spending terms, its budgeted assistance to these “fragile states” is rising. During 2003–05, the lending and administrative budgets amounted to \$4.1 billion and \$161 million, respectively—increases of 67% and 55% compared with 2000–02. Structurally too, there have been important initiatives with the existence from 1997–2007 of the Conflict Prevention and Reconstruction unit and, in 2002, the Low Income Countries under Stress (later called the Fragile States) unit. There is now a Conflict, Fragility and Social Development unit embedded in the Bank’s Africa division and an enlarged thematic unit on Fragile and Conflict-affected Countries. These teams have produced and commissioned ground-breaking knowledge on conflict-related issues, and are leaders in international efforts to encourage donors to improve aid effectiveness in fragile states and situations. Bank staff members have been co-leading a DAC-wide process to promote “good international engagement” in these settings. Moreover, like a number of bilateral donors, it is seeking to better adapt its procedures, allocation systems and project implementation capacity to these challenges. A new policy was agreed by the Board in 2007 to help it deal with “crises” in its operations.

⁸⁹ See, for example, *Conflict-Sensitive Approaches to Development, Humanitarian Assistance and Peacebuilding: A Resource Pack*, International Alert, Saferworld et al, 2004. Available at: <http://www.conflictsensitivity.org/>

⁹⁰ IDA is the largest provider of multilateral ODA to low income countries with disbursements in the order of US\$80 billion during 1994–2005.

⁹¹ Article V, Section 1, paragraph (g)

9. However, for all the progress that has been made in some of the corridors of the Bank's headquarters and field offices, the substance and practice, institution-wide, still falls short of what is needed. The direction and country-level decision-making of the Bank continues to be overwhelmingly dominated by economists, with a major premium placed on quantitative data (whose collection is often not without flaws) and "results" that are based on technical statistical measurements that largely do not articulate issues of spatial, gender or identity group distribution. While leading bilaterals have invested, for example, in the analysis of conflict dynamics (and how to integrate them into programme cycle management) and identifying "drivers of change", the Bank, in the way that it operationalises knowledge, does not place the same value on such know-how.

10. Despite the opportunities and constraints that regional, national and local dynamics can have on development activities, too many Bank development professionals focus on the endogenous factors of a "successful" project and can underplay the exogenous issues which determine the quality of *outcomes* over time for the country's societies (for example over coffee sector reform in Burundi). Efficiency is conflated with effectiveness and the absolute *quantity* of disbursements risks being the benchmark by which "success" is measured. The preferred avenue for "scaled-up" disbursement is budget support, even in fragile, conflict-affected countries such as Burundi.⁹² Funding streams, moreover, are generally tied to individual countries, which is a significant obstacle to tackling the cross-border factors that often drive fragility.

11. One of the most striking tensions that is emerging in the Bank's work in conflict/fragile settings is the question of balance in respect of, on the one hand, a pure poverty reduction agenda aimed at a country's poorest groups and, on the other, one which seeks to integrate a "state-building" approach in the light of perceived good practice enshrined in the Paris Declaration on Aid Effectiveness and also the DAC Principles of Good International Engagement. The Bank's engagement risks incoherence (and ineffectiveness) when different parts of the institution are pursuing the two approaches in the same context (for example in Nepal). This is particularly problematic when bilateral partners are adhering to a different agenda and there is no consensus on what is realistic and necessary given the defunct, corrupt or faction-riven politics of the operating context.

12. With some very notable exceptions (such as the Multi-country Demobilisation and Reintegration Programme—MDRP—in central Africa), the bulk of the Bank's staff appear unreceptive to the notion of putting the factors driving conflict and fragility at the front and centre of their planning and activities. The Bank "mainstream" continues to see conflict as some kind of "market distortion" which can be resolved through development activities that can afford to leave politics to one side. At best it is just one of a number of "issues" that are "tacked on" to the core business (infrastructure, service delivery, financial management etc). This affects both the delivery of IDA-funded projects but also the activities funded out of Bank-managed Multi-donor Trust Funds. The impressive level of project appraisal and evaluation, and the number of supervisory and assessment missions are not sufficient (or correctly designed) to address this problem. Where the problem is redressed, it is largely *ad hoc*, on the initiative of individual personalities, or alliances of individuals, within the Bank. This re-balancing may also come when it finds itself under pressure from certain bilateral donor partners who are alert to the issues.

13. The UK works closely with the Bank on a number of different levels. Not only does it directly finance the Bank's development activities, but it contributes discrete funds to specific analytical outputs and to multi-donor trust funds. DFID also works closely with the Bank in encouraging new avenues of conceptual thinking and policy commitments for the donor community, including through the OECD DAC. This is important and welcome, not least given the Public Service Agreement indicator to achieve "more effective international institutions, better able to prevent, manage and resolve violent conflict and build peace". Its significance lies in the fact that the UK's priorities can be rendered largely irrelevant in the absence of concerted efforts to understand and engage with other bilateral, multilateral and corporate activities. However, the UK's attention to the Bank's way of working does not yet go far enough, given the commitments the government has made.

The UK's role in improving the Bank's engagement

14. There is genuine ambition across the UK political system to improve the government's approach to the particular challenges that arise from violent conflict, persistent insecurity and other types of "state fragility". This has been reflected in the 2006 DFID and FCO White Papers and the IDC's recent Inquiry on conflict and development, just as it was in the Commission for Africa report and the Gleneagles G8 summit communiqué in 2005. Important policy publications have included those on security and development and Fragile States produced in 2005, and a Conflict Policy paper in 2007.

15. Yet, the UK's determination for "DFID to push for the UN—in particular UNDP—to help prevent conflict by addressing the structural causes of conflict and to deliver more effective and conflict-sensitive development in fragile countries, both before and after the conflict" (and for the EC to pursue "conflict-sensitive programming")⁹³ is not yet matched by the same intention vis-à-vis the World Bank, although

⁹² In 2007, the World Bank, France, the Netherlands, Norway and others have sought to give budget support to Burundi (although disbursement through the Bank has been delayed). The UK has not so far joined this approach.

⁹³ PSA Delivery Agreement 30: *Reduce the impact of conflict through enhanced UK and international efforts*, October 2007, paragraph 3.39

there is a dedicated International Financial Institution department within DFID and there has been some very useful contact and collaboration between DFID's conflict staff and their counterparts in the Bank (over conflict-sensitising PRSPs, the MDRP and IDA 15 negotiations on Fragile States).

16. In the World Bank headquarters, decisions on strategies and programmes are often waved through without sufficient expert scrutiny or input from the field. In-country, where DFID pays close attention to Bank activities, this tends not to be systematic. It depends on (a) the size of the given Bank project in proportion to the total donor engagement in that area, and (b) the size of DFID's programme in that country relative to the overall level of international assistance. Most frequently DFID struggles to monitor the Bank's decision-making because of the lack of staff time in both the relevant headquarters (London and Washington DC) and country missions.

17. Yet DFID's inter-relationship with the Bank really matters not only because it allocates significant sums for spending by the Bank (around £1.4 billion in 2005–07) but also because it often has substantial bilateral aid programmes in the same recipient countries. Moreover, the accountability relationship of the UK government to its electorate for development spending is distorted by increasing financial contributions to the Bank. This carries political responsibilities (and risks) that cannot and should not be ignored. In addition, there is a fundamental tension emerging between, on the one hand the Bank's formal commitment under its Articles of Agreement to stay away from politics and, on the other, the commitments on governance, "democratic culture" and conflict which the Bank itself emphasises in its own policy statements.

18. As the former Secretary of State for International Development, Hilary Benn, stated, security and development need to be put "into the heart of all DFID thinking and practice".⁹⁴ This includes its relationships and partnerships with other international development institutions. In the World Bank, obstacles remain to achieving this goal which relate both to the prevailing way of "thinking" within the institution and also its procedures and processes (and these are mutually reinforcing). The UK has an important role to play in helping to change these and its institutions have relevant and useful expertise which can be harnessed to help the Bank improve its effectiveness in fragile and conflict-affected countries. In so doing, it would be improving the impact of UK taxpayers' contribution to better development outcomes in these settings.

Ways forward

19. The crux of the challenge for the UK is to push for a shift in the "institutional culture" of the Bank so that there is a greater balance within genuinely *multidisciplinary* teams. Through the Board and its influence on Senior Management, the UK needs the Bank to make clear that, for the organisation as a whole, conflict and fragility are not (and cannot be treated as) a "thematic" issue, involving discrete programmes and units that are "tacked on" to the "standard" way of working. It is the context in which all types of programmes and approaches are taking place and which fundamentally impacts on the assistance provided (positively or negatively). All Bank activities have implications for longer-term relationships among competing elites, between citizens and the state, as well as between diverse (and often fractured) population groups.

20. DFID needs to encourage the Bank's management to take the following steps:

- Measure programme and project and staff performance in terms of progress towards the context-specific strategic goals, rather than weighting them towards more generic indicators such as volume of funds expended. The Bank needs to be more candid (at least with itself) about how it thinks its budget support, infrastructure, education and other activities affect power dynamics and social relations. It needs to be more actively conscious in how it engages with recipient communities and constituencies.
- Base staffing decisions on years of experience in fragile contexts, analytical capacity and political acumen, not technical qualifications alone.
- Ensure that country teams are large and expert enough to perform the in-country travel, ongoing analysis and political networking required to implement conflict-sensitive approaches effectively. Pressure from Finance Ministries to reduce transaction costs must be resisted, given the complexities of fragile settings. Effective assistance (which helps drive forward societies towards fuller participation, greater equity and peaceful development) is not just labour-intensive, it is expert labour-intensive. The Bank's administrative budgets and staffing plans should reflect this (as should the stance taken by bilaterals towards permitting those costs).
- Provide incentives for staff to spend more time in-country so that they have a better understanding of the local political context and will be more capable of dealing with the power dynamics and psycho-social which determine the overall as well as day-to-day progress of the relevant strategy document(s) and the projects which flow from that strategy. The "mission culture", whereby DC staff travel to the field every now and again for a few days, is not sufficient.

⁹⁴ See the Secretary of State's introduction to the strategy paper on security and development "Fighting Poverty to Build a Safer World", DFID 2005.

21. DFID needs to take certain measures within its own structures and procedures to improve its own way of working with the Bank. If DFID is to be able to provide greater assistance to the Bank, and provide some oversight that its own policy commitments are being accounted for, it needs to:

- Articulate a clear political commitment to a fundamental re-appraisal of development effectiveness “orthodoxies” (of alignment and “managing for [MDG] results” in fragile and conflict-affected states on the basis that:
 - All development is political, and in changing a status quo and challenging vested interests, it is inherently conflictual.
 - The question of “*how*” is as important as the “*how much*” because the ways that a strategy and a project are formulated, consulted on and implemented can mean that they themselves become a mechanism for promoting participation, accountability and social cohesion.
- Ensure sufficient (and sufficiently conflict-aware) human resources in the IFI division of DFID headquarters, and the UK’s Washington IFI mission, to monitor Bank strategy and project documents, and improve them, as appropriate, as they come before the Board of Executive Directors for approval. At a minimum, these units must be reinforced with sufficient numbers of staff, who can bring conflict/fragility expertise to DFID’s interaction with the Bank in respect of the 40–50 different “fragile” country operations. DFID/CHASE’s multilaterals team needs also to be strengthened to assist in this effort.
- Provide the right staffing levels and staffing incentives for DFID field staff to engage Bank staff on a more systematic basis, providing expertise (and, if necessary, pressure) for Bank staff to integrate political and psycho-social factors into their ways of working and, as appropriate, engage other bilaterals in efforts to influence these non-economic dynamics.

November 2007

Memorandum submitted by the Jubilee Debt Campaign

INTRODUCTION

1. Jubilee Debt Campaign works to alleviate extreme poverty through the cancellation of unpayable and unjust poor country debts. Jubilee Debt Campaign is a UK coalition of about 200 national organisations and local groups, supported by thousands of individuals. It is a registered company (number 3201959) and a charity registered in England and Wales (number 1055675). See www.jubileedebtcampaign.org.uk for more details.

2. Jubilee Debt Campaign welcomes this opportunity to highlight some issues regarding the relationship between DFID and the World Bank. In particular we would like to raise:

- extending debt relief;
- processes and conditions of debt relief; and
- co-responsibility in past lending.

EXTENDING DEBT RELIEF TO ALL OF THE POOREST COUNTRIES

3. The UK has been at the forefront of driving through major debt cancellation initiatives in recent years which, whilst limited and unfairly controlled by creditors, have released extremely valuable funds for some low-income countries. Funds from debt cancellation have been spent on health, education, water and other essential services, as well as increasing overall spending on priority areas for poverty reduction. However, debt cancellation needs to go further. Only 22 countries have so far completed the Highly Indebted Poor Country Initiative (HIPC), which qualifies them for the Multilateral Debt Relief Initiative (MDRI) agreed at the G8 in Gleneagles in 2005. A country qualifies for the HIPC scheme based on an arbitrary measure of its debt-to-export ratio rather than any assessment of whether it can meet its people’s basic needs.

4. The Prime Minister has stated that “A post-Gleneagles agenda should as a matter of urgency include full debt relief for not 38 [then HIPCs] but all the world’s poorest countries . . . In Britain’s view, all 67 of the poorest countries should secure debt relief.”⁹⁵ This welcome statement is being translated into the UK’s own MDRI, which DFID is implementing and which offers 10-year relief on the UK “share” of IMF, World Bank and African Development Bank debts to IDA-only countries outside HIPC, if they meet certain criteria.

⁹⁵ *The Guardian*, 11 January 2006.

5. We have some concerns about these criteria (which requires countries to have a World Bank Poverty Reduction Support Credit, a programme that involves unacceptable economic policy conditions). We understand that DFID is about to change its governance criterion for UK MDRI; we would strongly welcome a criterion that does not include externally imposed economic policy conditions, but focuses on transparency and accountability in public finance management.

6. However, this UK MDRI does at least extend debt relief to more countries. Currently eight non-HIPCs qualify for the UK MDRI. The World Bank and IMF HIPC and MDRI debt relief schemes in contrast remain extremely limited in the number of countries that qualify.

Recommendation: DFID should argue strongly at international fora for the extension of multilateral and bilateral debt cancellation to all IDA-only countries that satisfy basic transparency and accountability financial management conditions

PROCESSES AND CONDITIONS OF DEBT CANCELLATION

7. Moreover, the World Bank's debt relief processes are dependent on countries spending many years complying with conditions including many economic policy conditions of the kind which the UK officially opposes. For instance of the eight countries going through HIPC now, three have had to carry out privatisations in order to qualify for debt relief. Clearly such policy imposition undermines country ownership and can skew accountability relations towards donors and away from citizens. There is also considerable concern that World Bank-led policies, with their focus on privatisation, deregulation and free trade, have often had a negative impact on those in greatest need. Furthermore, such conditions are causing considerable delays in delivering debt cancellation, which the UK Government has described as a "matter of urgency".

8. DFID's policy on conditionality, adopted in 2005, states that the UK will not make its own aid conditional on specific policy choices from partner governments. This move was widely welcomed by British NGOs and has helped to maintain the UK's reputation as a leading donor when it comes to respecting country ownership and country driven processes.

9. Unfortunately, progress in reforming World Bank conditionality has not mirrored that of the UK. The Bank reviewed its conditionality in 2005 and adopted a new set of 'Good Practice Principles', but the Principles remain weak and implementation has been patchy. This is particularly concerning given the large and growing share of UK aid being channelled through World Bank programmes.

Recommendation: We hope that DFID will use all possible avenues to put pressure on to the World Bank not to make debt relief conditional upon a country adhering to particular economic policies

10. The conditions attached to World Bank debt cancellation relate to the wider question of debt cancellation processes. Current processes for debt cancellation, such as HIPC and MDRI, are entirely designed, monitored and controlled by creditors. They leave little or no room for debtor countries to make their case about their country's needs or the legitimacy of their debts. The World Bank and IMF have not questioned their own right to control debt cancellation processes.

Recommendation: Jubilee Debt Campaign is calling on DFID to engage in substantial multilateral discussions about establishing impartial arbitration processes to resolve debt disputes; these would allow for a fair hearing of both debtor and creditor, and would take into account the development situation and needs of the debtor, as well as the origins and legitimacy of the debts

CO-RESPONSIBILITY FOR POOR LENDING

11. The legitimacy of debts is currently not taken into account in granting debt cancellation. Many low and lower-middle income countries are still servicing debts that have resulted from the irresponsible or self-interested lending decisions of their creditors. The expense of these should not now be borne by the people of the debtor countries. These include, for instance, debts arising from original loans knowingly made to oppressive former regimes; for purposes that would not benefit the people of the recipient country; on extortionate or usurious terms; or for projects that failed because of bad lender advice.

12. The International Development Select Committee has in the past noted that "the unsustainable debt burden of heavily indebted poor countries exists to some extent as a result of irresponsible lending policies pursued by bilateral and multilateral creditors" and cited, in support of this, statements made by HMG and the World Bank.⁹⁶ Officials at the World Bank and IMF continue to acknowledge the fact of "reckless lending" or "Cold War lending" in the past.

⁹⁶ Select Committee on International Development, Third Report 1997-98. See for instance paragraph 7: <http://www.publications.parliament.uk/pa/cm199798/cmselect/cmintdev/563iii/id0304.htm#1>

13. This awareness of past reckless and irresponsible lending has not yet been translated into an acceptance of creditor co-responsibility for poor lending, and action to cancel the resultant debts. However, last year saw a breakthrough in the form of an extremely welcome and hugely significant decision by the Norwegian government. On 2 October 2006, the Norwegian Development Ministry announced that it would cancel debts being paid by five countries, on the grounds that they were incurred through Norway's own "development policy failure". The debts relate to Norway's ship-building industry, and served the industry far better than the recipient countries. The Norwegian government has concluded that "Norway shares part of the responsibility for the resulting debts" and so has cancelled them unilaterally.

14. The Norwegian Government also commissioned a World Bank discussion paper on the issue, in order to move the debate forward. This paper, "*The Concept of Odious Debt: Some Considerations*", was published on 7 September 2007. However, many NGOs are extremely disappointed with the current draft of this paper. It contains significant shortcomings and omissions and misses the opportunity to make a significant contribution to improving the international debt architecture. The Bank has formally requested inputs from interested parties since the paper represents a work in progress by the institution, but Jubilee Debt Campaign and our partners do not have confidence in the consultation process that the Bank has initiated. We believe that a formal external peer review process is the only way that the paper can be taken forward properly.

Recommendations

We would urge DFID to take this matter up with the World Bank to ensure that a transparent and meaningful process is established to take this issue forward.

The UK should also call for an audit of World Bank lending, as well as conducting an audit into its own outstanding claims on developing countries, in order both to see which debts should be cancelled on the basis of illegitimacy, and also to inform policies on responsible future lending.

October 2007

Memorandum submitted by the One World Trust

EXECUTIVE SUMMARY

1. The One World Trust⁹⁷ submission will consider the World Bank's internal governance, and areas for its reform. In order to increase its credibility and effectiveness the World Bank must systematically and fundamentally change its internal governance mechanisms. The Bank must seek to empower developing countries, foster transparency, improve the presidential appointment process, increase engagement with external stakeholders, and ensure that it is not usurping the democratic role of national governments and parliaments.

2. In order to achieve these changes the Bank should: strengthen the voice of developing countries in the Bank's decision making and reform processes that affect their countries; improve transparency by reforming the information disclosure policy by strengthening the narrowly defined conditions for non-disclosure; develop a more transparent process for senior appointments which safeguards the Bank against undue political influence and conflicts of interests; and respect the national democratic processes in both donor and developing countries by separating the work the Bank does to strengthen parliamentary capacity from any efforts it undertakes to promote projects it wishes to undertake.

The relationship between the World Bank's internal governance and transparency and its credibility and effectiveness

3. For the purposes of credibility, effectiveness and accountability, internal governance in the World Bank is inseparable from composition of the Board of Executive Directors. The composition of the Board of Directors reflects the political power relationships within the Bank; as such it is a key issue to address in any reform of the Bank's internal governance.

4. The World Bank's internal governance mechanisms reflect the political and power relations which dominated world politics in the decades following World War II. The five largest shareholders in the Bank—the United States, Japan, Germany, the United Kingdom, and France—maintain more than two-thirds of the voting power, effectively ensuring that decisions reflect the policy views of America and

⁹⁷ The One World Trust promotes education and research into changes required in global governance to achieve the eradication of poverty, injustice, environmental degradation and war. We develop recommendations on practical ways to make powerful organisations more accountable to the people they affect now and in the future, and how the rule of law can be applied to all. We educate political leaders and opinion-formers about the findings of our research.

Western Europe. Developing country influence on the Board of Executive Directors is limited. The remaining 16 Board seats are split among 177, this leads to these Executive Directors representing constituencies consisting of large numbers of individual countries.

- The World Bank should seek to address this disparity through reform of the Board of Executive Directors.

5. Reform of voting rules can help address power imbalances on the Board of Governors and the Board of Executive Directors. For example, a “state-weight double majority” as introduced by the One World Trust and Bretton Woods Project in, *Bridging the Democratic Deficit—Double Majority Decision Making* and the IMF, promotes a double majority voting system for the International Monetary Fund (IMF).⁹⁸ Such a system could also be employed in the World Bank where decisions would be decided by two majority votes—one respecting economically weighted voting and one based on one-country, one-vote principles.

- The World Bank should implement a state-weight double majority voting system for all issues at the Board of Executive Directors.

6. The limited influence of developing countries in the Bank is compounded by a lack of resources available especially to these Executive Directors to effectively engage with the stakeholders that they represent. Without appropriate research and engagement they cannot develop the necessary basis for a proper assessment of the multitude of projects which affect their constituency, and on which they eventually take decisions at Board level.

- The World Bank should seek to provide especially those Executive Directors who represent larger constituencies of countries with the staff and resources needed to effectively engage with and ascertain the needs of constituents in order to adequately represent them at the Board of Executive Directors.

TRANSPARENCY

7. While the Bank’s internal governance structures minimize the ability for developing countries to engage, the lack of transparency in decision making reduces the effectiveness of external stakeholders to engage in Bank affairs. The lack of disclosure of Board transcripts leaves stakeholders with no way of knowing where individual Executive Directors stood on issues. This reduces their ability to effectively advocate their position. While the Bank makes minutes of Board meetings available, the discussions leading to decisions as well as the identification of who supported or did not support certain decisions or policies must be disclosed as well.

- Full transcripts of Board proceedings should be published as soon as practicable after the Board meetings.

8. The Bank’s information disclosure policy approaches transparency in principle in the right way—employing a “presumption of disclosure”—but lacks the necessary conditions that describe reasons for not disclosing information. Narrowly defined conditions for non-disclosure are vital for ensuring an open and transparent operating environment. For example, the policy states that documents can be withheld on an ad hoc basis when issues may be detrimental to the interests of the Bank.⁹⁹ A narrowly defined condition would explicitly state which documents would not be made available along with the specific harm disclosure would bring—in this case how disclosure would be detrimental to the Bank’s interests.

- The World Bank’s information disclosure policy should include narrowly defined conditions. A “narrowly drawn set of conditions” identify the specific harm that would come from disclosure. For instance, conditions that state that no information related to the “deliberative process” will be disclosed are NOT narrowly drawn. However conditions that state that certain information related to the deliberative process will not be disclosed because of the harm that it will cause—and they are specific about what this harm is—are narrowly defined.

SELECTION OF THE WORLD BANK PRESIDENT

9. The selection of the World Bank President is a political appointment. While technically the Board of Executive Directors selects the President, in practice the head of the Bank is selected by the United States while the head of the IMF is selected by Europe. This gentleman’s agreement between the US and Europe reduces the legitimacy and credibility of the World Bank. No clear procedures exist for ensuring the qualifications of a candidate, nor does a process exist for other member states to review and question appointments. The World Bank President should be selected through an open and transparent process.

- Candidates should be evaluated and assessed by constituents and the election by the Board of Governors of the World Bank should be conducted openly.

The World Bank and Parliaments

⁹⁸ Chowla, Peter, Jeff Oatham and Claire Wren, “Bridging the Democratic Deficit—Double Majority Voting at the IMF”, Bretton Woods Project and One World Trust, 2007.

⁹⁹ The World Bank Policy on Disclosure of Information, p 23.

10. Parliaments are an essential part of any vibrant and effective governance system; from oversight of government policy to an arena for national debate they can and do play an important part in national political processes.¹⁰⁰ Given the importance of governance for development,¹⁰¹ it is important that the role of parliaments be considered by the World Bank.

11. The Bank should make the distinction between the work of the Bank in strengthening Parliaments in developing countries, and the relationship between the World Bank and Parliaments as part of the Bank's internal governance. Although the two can be mutually reinforcing, the distinction must be upheld.

12. For both donor and developing countries, the issue is to ensure that there are access points in the Bank's policy process so that parliaments can adequately engage and conduct oversight. The practicalities of these access points differ.

13. For donor countries, the interest is in seeking the opportunities to oversee the conduct of government policy pursued by a country's representatives at the Executive Board and Board of Governors.

- The Bank should allow senior members of staff to appear before parliamentary enquiries to give evidence.
- The Bank should also publish full transcripts of Board proceedings and votes to ensure that parliaments are able to monitor the actions of their representatives, and therefore conduct oversight.

14. The initiative, in this area, does not lie solely with the World Bank; governments and parliaments also bear some responsibility. Governments should provide regular reports to parliaments on their work at the Bank, covering both aims and what was achieved. Such reports can then be a basis for oversight by parliaments.¹⁰² Parliaments too must seek opportunities to oversee the work of the government. To this end the International Development Committee's annual evidence session on the World Bank is a good model, providing a recurring opportunity for discussion of policy, monitoring of progress and plans for the coming year.¹⁰³ However, the DFID Annual Report on the World Bank, should become more detailed, contextualised, and contain specific information about votes. That DFID has not yet published its report on work in 2006 is unfortunate. That information be provided is not enough, it should also be provided in a timely manner.

- DFID should continue to publish its Annual Report on work at the World Bank, seeking to incorporate more information about aims and objectives for the year, and compare progress with these targets.
- The International Development Committee should continue its practice of an evidence session after the Annual Meetings of the IFIs, using the opportunity to review progress for the year.

15. For developing countries, where the World Bank has projects, this concern about the ability of parliaments to effectively oversee the work of their government in the Bank's internal governance is equally applicable; and similarly needs both the support of the Bank and the government to achieve this.

- As with donor countries the Bank should support the attendance by Executive Directors and senior staff at parliamentary sessions.

16. In addition to this oversight of the institutional level policy processes, parliaments in developing countries should also be concerned with oversight of World Bank projects in their own country. In this case, throughout the project development cycle and during implementation, the World Bank must not only engage with government, but also with parliaments.

- Parliaments must be fully incorporated into the project cycle, which at a minimum level requires the provision of all relevant information, the willingness of in-country project staff to provide formal evidence to parliament, and meet informally with members of any relevant committees as well as parliamentarians from all parties.

17. For in-country project cycles, what the World Bank does not do is also important. It must not use any of its parliamentary strengthening work to increase political support for projects it proposes at national level. Not getting involved in the domestic political process, the Bank should leave the government to persuade parliament of the benefits of a project.

¹⁰⁰ Hudson, Alan and Claire Wren, "Parliamentary Strengthening in Developing Countries", Overseas Development Institute, 2007.

¹⁰¹ DFID, *Making Governance work for the Poor*, Cm 6876, London: HMSO, 2006.

¹⁰² Halifax Initiative, *Analysis of the Report on Operations under the Bretton Woods and Related Agreements Act 2004*, 2005.

¹⁰³ Wren, Claire and Michael Hammer, "Parliamentary Oversight of the International Financial Institutions—The Experience of the UK and the World Bank", One World Trust, 2007.

CONCLUSION

18. To ensure the World Bank operates in ways consistent with the Department for International Development's own objectives, reform must take place at the Bank to achieve sufficient levels of transparency, accountability and parliamentary oversight. An improved policy on information disclosure would foster transparency and enable stakeholders to hold the Bank and their representatives to account. Improved selection procedures for the President alongside more equitable control among member states on the Board of Executive Directors would expand ownership of the organisation to developing countries thereby increasing legitimacy and enhancing credibility and effectiveness. Improved engagement with parliaments would help to ensure that national democratic processes are not usurped by the World Bank.

11 October 2007

Memorandum submitted by Oxfam GB

1. Oxfam's submission to the International Development Committee's inquiry into "DFID and the World Bank" will focus on addressing the question of the compatibility between DFID's own conditionality policies and those of the World Bank. Oxfam acknowledges that there are many other key issues that should be explored by the IDC in its inquiry, including World Bank governance and its role in reducing climate change, but has decided to focus on one aspect for the purpose of this submission.

INCOMPATIBILITY OF DFID CONDITIONALITY POLICY AND WORLD BANK LENDING

2. In March 2005 the UK committed to a new policy on "conditionality", outlined in its paper *Partnerships for poverty reduction: Rethinking conditionality*. This policy stipulated that UK conditionality would be guided by five key principles: developing country ownership, participatory and evidence-based policy-making, predictability, harmonisation, transparency and accountability.

3. Importantly, the principles explicitly committed the UK government to "not make aid conditional on specific policy decisions by partner governments, or attempt to impose policy choices on them (including in sensitive economic areas such as privatisation or liberalisation)", but instead agree with partners a set of benchmarks, which related to impact/outcomes and assess progress against these. The principles also explicitly committed the UK government to support the greater use of evidence in policy-making, and to press for the use of Poverty and Social Impact Analysis (PSIA).

4. Oxfam research has found evidence that the World Bank is flouting both of these specific commitments. Our report issued last year, *Kicking the Habit: How the World Bank and IMF are still addicted to attaching economic policy conditions to aid* (see attachment) highlighted that the World Bank is continuing to attach specific policy conditions to its development finance that push privatisation and liberalisation. Drawing upon the case of Mali, Oxfam revealed that the World Bank is attaching economic policy conditions calling for cotton price liberalisation on Malian farmers to their development finance. The report showed that, not only has this resulted in a delay to much-needed funds to Mali, but that it has also had a negative impact on poverty reduction. As a result of price liberalisation, three million Malian farmers faced a 20 per cent drop in the price they received for their cotton¹⁰⁴ according to the World Bank's own research this is likely to result in an increase in poverty of 4.6% across the country.¹⁰⁵

5. Our jointly authored report on *Blind Spot: the continued failure of the World Bank and the IMF to fully assess the impact of their advice on poor people*" (see attachments) also reveals that the World Bank is still failing to consistently ensure that there is a proper assessment of the likely consequences of different policy actions on the poorest people. The report cites unpublished World Bank research on PSIA, which says that the process as currently carried out is not properly embedded in the client country's own planning processes, and that there is no systematic approach to the selection of reforms for PSIA.

6. Oxfam believes that the UK government should use its funding, in particular, to IDA to leverage crucial reform within the World Bank, withholding additional funding to IDA until the World Bank commits to end economic policy conditionality. We also believe that the UK should push the Bank to present a comprehensive strategy to ensure that country-led PSIA is included in the design of, and carried out prior to, all key structural and economic reforms or projects with a significant distributional impact.

October 2007

¹⁰⁴ Oxfam International, 2006: *Kicking the Habit: How the World Bank and the IMF are still addicted to attaching economic policy conditions to aid*.

¹⁰⁵ Wodon et al 2006: *Cotton and Poverty in Mali*, World Bank Draft Report.

Memorandum submitted by Lauren M Phillips, Research Fellow, Overseas Development Institute

DFID/WORLD BANK RELATIONS

Latin American Regional Assistance Plan as a Case Study for Multilateral Funding

1. This first section of this submission focuses on DFID's Regional Assistance Plan (RAP) to Latin America which since 2004 has been heavily focused on working "through, with and around" the World Bank and Inter-American Development Bank (IDB) to achieve its regional policy goals. The experience of channelling a large regional programme through the World Bank serves as an interesting example of how successful DFID is likely to be in the future of ensuring that multilateral funding meets their stated objectives. A second section on World Bank governance follows.

2. ODI conducted an interim evaluation of the RAP in winter 2006–07, and material in this brief is taken from that evaluation.

PURPOSE AND OBJECTIVE OF THE RAP

3. The purpose of the RAP was to "enhance the impact of international community support for poverty reduction in Latin America, focusing primarily on the Inter-American Development Bank and the World Bank." The primary objective of the RAP was to "help the IDB and World Bank better enable poor people to shape, participate in and benefit from . . . access to markets and international trade . . . [and] accountable and responsive public sector management and political systems."¹⁰⁶

4. Faced with the 90/10 strategy for funding to middle income countries and shrinking resources to Latin America, the new strategy was driven by the realisation that "as a modest sized bilateral donor, DFID can only achieve sustainable and significant contributions to poverty and inequality reduction if we use our bilateral resources to enhance the effectiveness of key influential organisations in the region, in particular the IDB and World Bank. We need to engage more systematically with these institutions by focusing on a limited number of areas where we have a comparative advantage and can add value to their work."¹⁰⁷

RAP ARCHITECTURE

5. The RAP had a relatively complicated architecture with two primary components. A small amount of money was provided for the three remaining regional offices in Nicaragua, Bolivia and Brazil to pursue small programmes, and a larger amount of money for the IDB and World Bank governed through a series of trust funds. The trust funds were focused on trade, markets, governance and social exclusion.

FINDINGS FROM THE EVALUATION ON THE EFFECTIVENESS OF WORKING THROUGH IFIs

6. The overall findings of the evaluation were that there was evidence of a positive influence on both the IDB and World Bank, and that the Trust Funds have been used to finance projects consistent with DFID objectives.

7. However, it was generally perceived that the IDB trust funds had been more successful in meeting DFID objectives than World Bank trust funds for a number of reasons. First, the DFID trust funds within the World Bank were small in comparison to the World Bank's total trust fund and other funding pools. Second, UK attention at the Executive Board level to the Latin American project was lacking, in contrast to the IDB where the UK executive director could focus extensively on the DFID relationship.

8. Finally, the World Bank's decentralised structure in Latin America, with country offices playing a central role, minimised the impact of funds from Washington. As the evaluation noted: "The structure of the World Bank might have made it sensible to consider locating the World Bank Trust Funds closer to the ongoing programme work. It appears that their location in Washington has led to the politicisation of the funds amongst different research and operational departments, and has in practice decreased access to the grants for World Bank offices in the region."¹⁰⁸

9. The idea of "influencing" the World Bank was also problematic for several reasons. First, the way that this objective was presented at the outset created diplomatic problems. World Bank staff "continues to be highly sceptical about the ability of relatively small trust funds to fundamentally change the way the Bank approaches issues, such as trade and governance."¹⁰⁹ To date there is a general fear within DFID of causing offence by claiming to have influenced the World Bank and IDB, which has made monitoring and evaluating the extent to which such influencing is occurring nearly impossible.

¹⁰⁶ DFID Latin America Regional Assistance Plan 2004–07: 2.

¹⁰⁷ *Ibid.*: 9.

¹⁰⁸ Booth *et al* (2007), "Interim Evaluation of DFID's Regional Assistance Programme for Latin America," Overseas Development Institute: 5.

¹⁰⁹ *Ibid.*: 5.

10. Thus, the findings on the influencing agenda in the World Bank and IDB was summarised as “a successful model, imperfectly operationalised.”¹¹⁰

LESSONS FOR FUTURE DFID/WORLD BANK RELATIONS

11. The lessons from DFID’s attempt to work in Latin America through the World Bank highlights that it is possible to create programmes which conform to DFID goals, but that the overall strategic direction of the institution is unlikely to be changed by such programmes given the relatively small funding impact such projects have.

12. Additionally the RAP experience suggests that the World Bank does not look favourably upon DFID’s attempt to influence or change its policy agendas, and that presenting objectives in such a way makes achieving goals more difficult.

UK VIEWS ON WORLD BANK GOVERNANCE

13. This second part of this submission focuses on UK / DFID views on governance of the World Bank, and in particular on how efforts to reform the governance of the World Bank and its sister institution, the IMF have been supported or stymied by the UK government.

BRETTON WOODS INSTITUTIONS AND GOVERNANCE REFORM AND THE UK

14. Reforming the governance structures of the Bretton Woods Institutions—the World Bank and International Monetary Fund (IMF)—was until last year a desirable but seemingly unattainable goal. But during 2006, major momentum built both within and outside the institutions for reform, as the IMF in particular was at risk of losing relevance due to the growing economic strength of middle income countries (traditionally the IMF’s primary borrowers) who were repaying their loans early and had little need to borrow given favourable global credit conditions and their possession of staggering levels of foreign exchange. It was agreed that by the spring of 2008, members would decide on a major reform of representation within the IMF, with expected concordant changes in its sister institution, the World Bank.¹¹¹

15. Some prominent members of the UK government, and most notably Bank of England governor Mervyn King, spoke out about the need to reform these institutions.¹¹² The reform process also enjoyed the tacit support of Gordon Brown while he was the chair of the International Monetary and Finance Committee (IMFC) of the IMF, who pushed for greater representation for African countries and presided over initial increases in representation to four countries: China, South Korea, Mexico and Turkey.

16. As the reform process has progressed however and negotiations continue, the UK along with several other European countries and Japan are said by insiders to be resisting a final deal which would utilise gross domestic product measured (GDP) measured in purchasing power parity (PPP) terms to determine a country’s representation in the fund. Such a metric would afford developing countries greater representation, but would adversely affect the level of representation of countries like the UK and France, who as two of the five largest members, currently have the right to their own chairs on the Executive Board.

17. Two other critical events have taken place since the governance reform negotiations began: the first was the prolonged scandal involving World Bank President Paul Wolfowitz which eventually led to his resignation. Despite calls by many to use the opportunity of his resignation to democratise the selection process—which has always been manned by a US appointment—the US, tacitly supported by the Europeans, nominated Robert Zoellick as the new Bank president.

18. Less than a month later, the Managing Director of the IMF announced that he would be resigning his post in October 2007 for personal reasons. His resignation once again generated calls for democratising the selection process (the position has always been manned by a European appointment), including calls from the UK to pursue an open leadership contest. However, under pressure from European allies, the UK recently threw its support behind the presumptive European nominee, former French finance minister Dominique Strauss-Kahn. 19. Thus, the UK has played an ambiguous role in the process to reform the Bretton Woods institutions and therefore increase their credibility with borrowing governments. While on the one hand it made initial gestures supporting reform of formal representation within the institutions, it has more recently become part of a group of countries which is blocking a final deal.¹¹³ Additionally, while they initially voiced an interest in seeing a fair leadership contest for the positions of President and Managing Director, they have eventually fallen in line behind the establishment candidates.

¹¹⁰ *Ibid*: 11.

¹¹¹ Formal representation on the board of the World Bank has always mimicked that of the IMF, where changes to representation are usually initiated.

¹¹² Speech by Mervyn King, Governor of the Bank of England, “Reform of the International Monetary Fund,” given at the Indian Council for Research on International Economic Relations (ICRIER) in New Delhi, India: Monday 20 February 2006.

¹¹³ It should be noted that the US supports the deal that the UK and other EU countries + Japan are blocking.

Memorandum submitted by the Rainforest Foundation UK

INTRODUCTION

1. This evidence presents a specific example, concerning World Bank interventions in the Democratic Republic of Congo (DRC) which is directly relevant to the Select Committee's interest in the World Bank's relationship with DFID, other donors and stakeholders. The evidence demonstrates the way in which the Bank, as it functions at present, is not delivering on the Millennium Development Goals and is not contributing to the furtherance of other DFID priorities such as good governance or tackling climate change.

2. The evidence is of particular significance at present as it concerns DRC, currently the 10th biggest recipient of British bilateral aid and, more widely, the Congo Basin, a region in which the UK government has expressed a particular interest and to which, earlier this year, it committed £50 million of its £800 million Environmental Transformation Fund.

BACKGROUND TO THE RAINFOREST FOUNDATION

3. The mission of the Rainforest Foundation (RF) is to support indigenous peoples and traditional populations of the world's rainforests in their efforts to protect their environment and fulfil their rights. In practice, this often involves assisting forest-dependent communities to secure, through non-violent and legal means, rights to tenure over forest land and resources. We presently support initiatives in Cameroon, the Democratic Republic of Congo, the Republic of Congo, Gabon, Colombia, and Peru. We have been working with local partners in the Democratic Republic of Congo since 2000.

THE WORLD BANK IN THE DEMOCRATIC REPUBLIC OF CONGO

4. For a detailed explanation of the World Bank's role in the DRC between 2002 and 2005, please refer to the Rainforest Foundation's written evidence submitted to this committee on 18 October 2005.

5. Since the submission of the 2005 evidence, the World Bank Inspection Panel has prepared a report on the Bank's interventions in the forest sector in DRC (Report attached as Annex I and II). The report was prepared in response to a Request for Inspection submitted by 12 Congolese organisations working for and with Pygmy people, concerned about the impact of Bank-promoted development of Congo's forest sector on the lives and livelihoods of forest peoples.¹¹⁴

6. The Panel's report highlights a number of serious failings in the Bank's interventions in DRC, including:

- (a) Failure to comply with internal Bank policies on: Indigenous Peoples (OD 4.20); Cultural Property, (OP 11.03); Environmental Assessment (OP 4.01); Natural Habitats (OP 4.04) and serious inadequacies in complying with its overarching objective; that of Poverty Reduction (OD 4.15).
- (b) Effectively misleading the Congolese government at the start of Bank engagement in the forest sector by overestimating the export revenue from logging concessions, thus encouraging the government to look to industrial timber exploitation as a source of significant revenue.
- (c) Basic errors in the development of the projects, such as that fact that the project documents did not identify the existence of Pygmy peoples in the areas affected by the project and made no provision to identify or include them in project planning.
- (d) No development of an Indigenous Peoples' Development Plan as required under OP 4.20.
- (e) "Downgrading" of projects to lower levels of potential environmental risk, thus reducing the level of environmental assessment required, and then failing to carry out environmental and social impact assessments before the projects started.
- (f) Weak management, for example when it apparently failed to "make timely follow up efforts at a sufficiently high level to ensure necessary action in response to its findings".

7. The Bank Board will be considering the Panel report and the Bank Management Response in early November.

¹¹⁴ For the Request for Inspection, see <http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/RequestforInspectionEnglish.pdf>.

 DFID AND THE DRC

8. One of the five key components in DFID's programme in the DRC is "To improve the management of the country's rich natural resources to benefit all its people". As part of that programme, we welcome DFID's initiative on the Round Table on alternatives to industrial logging and their support for a number of natural resources-focussed initiatives with UK NGOs, including the Rainforest Foundation UK.

9. One of the very few positive developments identified by the Bank Inspection Panel concerning DRC's forests is the mapping of indigenous rainforest lands, which is implemented by the Rainforest Foundation and local Civil Society Organisations (see p 61 of the Inspection Panel report). The report notes that "the Panel considers that these mapping exercises are of great value as a step toward recognition of the rights and interests of Pygmy people in the forests". This work is funded by DFID's Civil Society Challenge Fund.

IMPLICATIONS OF THE DRC CASE FOR THE RELATIONSHIP BETWEEN DFID AND THE WORLD BANK

10. In relation to the specific areas of interest outlined by the Committee, the Rainforest Foundation believes that this case demonstrates the following.

11. Whilst the Bank's overall approach in this case has been seriously flawed, DFID has, through its bilateral programme, supported valuable interventions, consistent with its Development Policy.

12. *Millennium Development Goals:* In this case, Bank actions have potentially seriously hindered progress towards achievement of the MDGs, particularly Goals 1, the eradication of extreme poverty and hunger, and 7, ensuring environmental sustainability.¹¹⁵

13. *Effectiveness of the World Bank as a mechanism for achieving DFID goals on climate change:* the Bank's interventions in the forest sector in DRC have effectively laid the groundwork for further deforestation in the Congo Basin region, thus directly contradicting DFID and the UK government's stated aims in relation to climate change.¹¹⁶

14. *Levers of change and influence open to donor states:* In 2005, the Rainforest Foundation made a detailed submission to this committee on the Bank's involvement in the DRC forest sector and also briefed the UK Executive Director. Despite having been informed of the concerns which have now been reiterated by the Inspection Panel, the Bank's Board took no substantive action and approved financing for the project that has now been so heavily criticised. This raises the question as to how accountability mechanisms between the UK ED and DFID are working: the Bank's actions in this case are directly contradicting DFID's own policy commitments and the Bank's internal safeguards and yet the UK's Executive Director did not appear to take this into account.

15. *DFID's capacity to effect political change in corrupt or weak administrations through World Bank funding:* In this case, Bank advice has led directly to poor decision making and has created, with the emphasis on industrial logging and a flawed "concession conversion" process, a climate in which corruption and poor governance is positively encouraged¹¹⁷

CONCLUSIONS

16. In this specific case, there are clear failures of Bank management which have directly potentially harmed some of the poorest people in the DRC, one of the world's most troubled and poorest countries.

17. Of particular significance, we believe, is the Inspection Panel's comment that "the financing of policy and institutional reforms in a sensitive sector like the forests of DRC, and related advice and technical assistance, can lead to highly significant environmental and social impacts, even if it does not involve direct financing of the mechanical and organizational tools for industrial logging".

18. In such circumstances, we feel that unless the Bank itself makes significant changes in its approach and unless the UK government plays a stronger role in calling Bank management and staff to account, DFID and the UK government will not be able to achieve their goals through the mechanism of the World Bank, and may even undermine pursuit of those goals through the DFID bilateral programme.

¹¹⁵ "The Panel finds that there is a possibility that the Project in its present form, may not contribute significantly to alleviating poverty of the forest people, . . . , and may instead contribute to adverse impacts on poverty" Inspection Panel report, executive summary, page xix and "The Panel notes that there is a real danger that the highest quality forests will be depleted and valuable fauna exhausted with little benefit to local populations, or even to the general population in the country" Inspection Panel report, p 130.

¹¹⁶ "In its investigation, the Panel noted that when the Bank initially became engaged in the DRC and decided to support work in the forest sector, it provided estimates of export revenue from logging concession that turned out to be much too high. This had a significant effect, for it encouraged a focus on reform of the forest concession system at the expense of pursuing sustainable use of forests, the potential for community forests, and conservation" Inspection Panel report, p 130.

¹¹⁷ For example, concerning the Concession Review Process, the Inspection Panel report expresses concern that the identification of Commission members "may legitimize a process under which the more powerful members of the commission would take decisions that could run contrary to the interests of locally-affected people". Inspection Panel Report Executive Summary, p xxxi.

KEY QUESTIONS THAT THE COMMITTEE MAY WISH TO POSE

What steps does the UK Executive Director to the World Bank take to ensure that Bank staff have correctly "triggered" the relevant safeguard policies in proposed projects and programmes, and to then ensure that triggered safeguards are properly implemented?

As there appears in this case to have been a clear failure of advice to the UK Executive Director, and even though warnings were provided independently by NGOs to the Executive Director of the likely adverse consequences of project approval before it was approved, can the Secretary of State account for how there was such a failure of DFID advice and the projects were approved, with the support of the UK Executive Director?

What role do DFID's advisors play in scrutinising proposed Bank projects and programmes and in briefing the UK Executive Director on possible concerns over these projects?

What criteria does the UK Executive Director to the World Bank use to assess the likely contribution of proposed Bank projects and programmes to the achievement of the Millennium Development Goals?

What steps is DFID taking to ensure that its expertise in natural resources issues is brought to bear in post-conflict countries that are subject to major World Bank interventions?

What steps will DFID take to ensure that the findings and recommendations of the Inspection Panel report on the Democratic Republic of Congo will be taken into account in future Bank interventions in the DRC and in the natural resources sector more generally

October 2007

Memorandum submitted by RESULTS UK

EDUCATION IS MORE THAN JUST NUMBERS

1. *Summary*

1.1 Although the world has made progress in cutting the numbers of children without access to education since the 1990s, there is still work to do. As the Prime Minister and DFID have pointed out, it is estimated that over 70 of 94 poor countries still have some type of education user fees and there are many other costs that families have to bear, such as paying for school uniforms, books and meals. Barriers related to secondary school are even more difficult for poor families to overcome.

1.2 In addition, it is important to recognize that it is not just about "bums on seats". While universal access is a necessary prerequisite, it is not sufficient. The quality of the education delivered is as important as the number who receive it and the ability of donors to respond to urgent transitional needs when countries scale up their enrolment and provide effective support for improving quality is critical.

1.3 In our submission we recommend that the UK government uses its considerable influence at the World Bank to ensure that the potential decline in Bank lending to education in Africa is halted and reversed and that the Bank gives more emphasis to the quality of education resulting from its inputs, along with a continued emphasis on access. Specifically, along with the abolition of school fees, provision must be made for the recruitment of well-trained teachers unrestricted by wage ceilings and more work should be put into the use of appropriate learning outcomes and their determinants.

2. *Background*

2.1 The number of children out of school has dropped from over 100 million in the 1990s to 77 million in 2005. The great declarations on universal primary education from the 1990 World Conference on Education for All, through the 2000 World Education Forum, to the G8 promises of 2005 have focused attention on the need to improve access to education and it is clear that good progress is being made towards Education for All.

2.2 However, there is still a long way to go and continued barriers to access must be eliminated—particularly continuing formal financial barriers, but also informal ones. Too many children remain invisible. For example, when Burundi abolished school fees they planned for an additional 250,000 children to come into the classroom, but over twice that number turned up. These were children who were not even on the government's radar screen.

2.3 In order to keep children in the classroom and ensure a meaningful outcome to their education, attention must be given to the quality of the education delivered. This takes resources, careful implementation and monitoring of learning outcomes. Formally scrapping fees must be accompanied by major increases in national and external financing or increased enrolment will not be sustained and learning outcomes not met.

2.4 Clearly, enrolment and quality must be addressed simultaneously by providing adequate external support for countries to effectively scale up schools and make learning outcomes a core objective for all primary education projects. Countries must learn from the best practices and lessons learned by other countries and plan to address learning outcomes as access is being scaled up. Experience shows that it is more difficult to retrofit quality onto a system that is already suffering from lack of teachers and resources. Yet at the same time, countries must not be forced to make the impossible choice of preserving some level of quality by excluding a third or more of all children.

3. *Teacher recruitment and training*

3.1 Quality of education relies first and foremost on the supply of well-trained, properly paid teachers. Worldwide it is suggested that 18 million new teachers will be needed by 2015, four million in Africa alone, to meet the target of providing quality primary education for all children.

3.2 When tuition fees in primary schools are abolished in order to achieve universal enrolment, teacher recruitment and training must be massively scaled up to respond.

3.3 However, care must be applied in the use of strategies to address the shortage of teachers. Although incentives such as shorter training courses can work to speed up the supply of teachers, they must not be at the expense of effective training. Poorly trained teachers cannot provide the quality of delivery required to engage the children and improve their skills.

3.4 The use of untrained non-professional teachers, while appropriate in some circumstances, is not an effective long-term solution. Poor teaching by staff who are not adequately trained, hired on low wages and offered no job security, leads to high drop-out rates and poor learning outcomes. This should not be viewed as a viable solution to the problem of teacher shortages.

4. *Funding*

4.1 In terms of overall funding for education, aid to basic education in low-income countries rose from \$1.8 billion in 2000 to \$3.4 billion in 2004. Although pledges made so far will increase this to \$5.4 billion by 2010, this is still far short of the \$10 billion per year that will be needed.

4.2 The UK government's pledge of £8.5 billion for education over 10 years in April this year is an enormously important step and can and should be used to further leverage not only other bilateral donor commitments but also increased commitment by the World Bank and other international financial institutions. There is a particular opportunity to ensure quality national education plans via the Fast Track Initiative (FTI).

4.3 Since its inception in 2002, the FTI has proven to be an effective multi-donor mechanism, funding countries with strong national plans and enabling donors to coordinate their aid. Yet the UK's contribution to the FTI still represents only 10–15% of its overall spending on education and has not risen since the increased overall pledge in April.

4.4 The UK must ensure that future spending on the FTI from 2009 onwards reflects the increased pledge, with a focus on ensuring access linked to quality.

4.5 In contrast to the UK's increased commitment to education, the World Bank's lending on education has not increased substantially in recent years. Lending for education in Africa, for example, has fallen from \$472.6 million in 2002 to \$339.3 in 2006. And there are worrisome indications that the fall could be more precipitous for 2008. As of mid 2007, there was only one World Bank loan for education in Africa of all loans listed in the 2008 pipeline for education. This is an alarming trend that must be investigated and addressed.

5. *All children deserve a quality education*

5.1 As the largest external funder of education, the World Bank has a responsibility to ensure that its lending increases in line with the need. It must also ensure that the education supplied is of good quality and sustainable by helping countries to increase the supply of well-trained teachers, reduce student drop-out rates and monitor learning outcomes.

5.2 Better collaboration between the World Bank and the International Monetary Fund (IMF) is needed to ensure that IMF-driven public sector wage ceilings and budget do not make it difficult for governments to hire all the teachers they need. Recent research in sub-Saharan Africa has shown that a major factor behind the chronic shortage of teachers is IMF policies that have required countries to freeze teacher recruitment.

5.3 The Bank also needs to work with its partners to reframe the priorities of the FTI to include improved learning outcomes as along with a continued focus on enrolment and completion. This would entail the inclusion of learning achievement indicators in country's FTI proposals as well as a recognition by the Bank that funding must take into account the unit costs of providing schooling that actually teaches children basic literacy and numeracy.

5.4 The UK government has a vital role to play in influencing the World Bank to ensure that it plays a central role in provision of resources for basic education, especially in Africa, addressing both the removal of barriers to education and the quality of that education.

“In many countries not all children have the opportunity to enter a classroom or gain basic literacy or numeracy skills, as there are simply not enough qualified teachers. This has negative outcomes not only for the future of individual children, but also for the development of whole societies.”

Director-General of UNESCO, Koïchiro Matsuura, in a message marking World Teachers' Day, 5 October 2007.

EMPOWER THE POOR THROUGH MICROFINANCE

1.1 Microfinance has proven to be one of the most effective development tools available for empowering the poorest in society to break free from poverty and deprivation. Despite its record of success, microfinance remains underutilised by the World Bank.

1.2 In fiscal Year 2006 the World Bank, through the International Finance Corporation, invested US\$132 million in microfinance. The Bank has since confirmed that it can not fully or accurately assess the precise level of IDA funding dedicated to microfinance. Similarly the Bank is unable to state with any certainty what proportion of that funding is reaching those living on less than US\$1 a day.

1.3 The World Bank should afford greater priority to microfinance initiatives, recognising its valuable contribution to poverty reduction and development. Furthermore we recommend the following important measures to the World Bank for their consideration:

- (a) The World Bank should scale up its microfinance programmes, enhancing their capacity and global reach. This can only be achieved through greater investment.
- (b) The Bank should seek to ensure that at least half of all microfinance resources benefit those living on less than US\$1 a day
- (c) Cost-effective poverty measurement tools should be used to measure the poverty level of borrowers and thereby ensure compliance with that goal; and
- (d) The World Bank should report on the results in an open and transparent manner.

RESPOND TO AFRICA'S TB EMERGENCY

1.1 Africa continues to bear the brunt of the global TB epidemic, remaining the only continent where TB cases continue to rise. The combination of weak health systems, grinding poverty and high rates of HIV/AIDS have all contributed to a trebling of the number of TB cases and deaths since 1990 (WHO 2007).

1.2 The scale of the TB epidemic is so great that in August 2005, African Ministers of Health and the World Health Organisation (WHO) declared TB a continent-wide health emergency. A year later the first cases of extensively drug resistant TB (XDR-TB) were reported, adding a new and deadly dimension to the already severe health crisis. The World Bank's commitment to tackling tuberculosis is crucial if the international community is to effectively deal with the crisis.

1.3 There are now about 12 million people infected with both HIV and TB—70% of these cases being in Sub-Saharan Africa. The TB emergency is dramatically increasing mortality rates amongst those infected with HIV. Treating TB is therefore one of the most effective ways of reducing AIDS deaths.

1.4 Despite the inextricable link between HIV/AIDS and TB only a few of the World Bank's multi-country HIV/AIDS programmes included a dedicated TB component. Though the Bank does provide TB funding in the way of budget support and sector wide health investments, it is unable to accurately report the scale or extent to which these programmes directly benefit TB control.

1.5 In 2006 the civil society organisation RESULTS International reported that the Bank devotes less than 1% of health sector financing for Africa to TB, despite a US\$11 billion funding gap to achieve the MDG for TB in Africa.¹¹⁸

1.6 TB control has proven to be amongst the most economically effective health interventions that can be made. The World Bank has to its credit recognised this fact in principle, it is now time for the Bank to follow through and give TB control the increased attention and investment that it deserves.

1.7 The UK government should seek to persuade the World Bank to significantly scale up its commitment to fighting TB in Africa, investing at least US\$ 1.1 billion over the next decade.

10 October 2007

¹¹⁸ In July 2007, WHO launched the MDR-TB & XDR-TB Global Response Plan, which calls for an additional (ie, over the resource needs identified by the Global Plan) \$700 million and \$1 billion worldwide in 2007 and 2008 to respond the emergence and spread of drug-resistant TB. WHO estimates that at least an additional \$1 billion will be needed annually from 2009–15.

Memorandum submitted by Stop the Traffik

1. STOP THE TRAFFIK welcomes the International Development Committee's Inquiry into DFID and the World Bank. The use of multilateral institutions to channel funding for development can be beneficial if accountability and efficiency are both ensured.

2. STOP THE TRAFFIK agrees with the premise that it is essential to coordinate DFID's involvement with the World Bank around its priorities and objectives of achieving the Millennium Development Goals (MDGs). However, a much more holistic approach that addresses contributory factors to the issues raised by the MDGs must be adopted if the targets are going to be met. One of these factors is human trafficking.

3. STOP THE TRAFFIK is working to raise awareness of and demonstrate the links between the issues identified by the MDGs and the modern-day slave trade that is human trafficking, through research, advocacy, and education, thereby showing that human trafficking is a development issue. The aims of DFID and the World Bank cannot be achieved without tackling human trafficking, and tackling human trafficking cannot be successful without achieving the MDGs. The issues identified by the MDGs such as poverty and lack of education are the root causes of human trafficking, and human trafficking sustains people's entrapment within situations of poverty and exploitation.

4. To this end, STOP THE TRAFFIK are urging DFID to press for an anti-trafficking focus as a key criterion in World Bank tools such as the Poverty Reduction Strategy Papers (PRSPs) and other Overseas Development Assistance (ODA) outlets. These would develop tailored programmes for identified people groups vulnerable to trafficking, particularly women, children, and marginalised communities, which would help achieve the MDGs.

5. Additionally, DFID are committed under Action Point 5 of the UK Action Plan to Tackle Human Trafficking to address the root causes of trafficking, through supporting anti-trafficking projects which address the factors that make individuals vulnerable to trafficking. The Action Plan states that:

Where prevention of cross border trafficking is concerned, it is crucial that push and pull factors are addressed, such as the increasing inequality in prosperity between and within countries and the increasing demand for cheap labour and other exploitative services. The reasons why people become vulnerable to trafficking, such as the lack of employment and development opportunities, poverty and gender inequality problems also need to be addressed in the wider development work.¹¹⁹

6. STOP THE TRAFFIK therefore urges the International Development Committee to assess how DFID can fulfil its objectives of achieving the MDGs through the World Bank by addressing the impact of human trafficking. This would present a more holistic approach to development.

Memorandum submitted by the Trades Union Congress

Summary

- The TUC supports the broad thrust of the DFID and World Bank policies on poverty reduction and emphasizes the need for the explicit recognition of the role of trade unions in development and for their greater involvement in poverty reduction strategies.
- The UK Official Development Assistance should be conditional upon respect of human rights including adherence to internationally recognized Core Labour Standards—effective enforcement of right to freedom of association and collective bargaining, elimination of child labour, forced labour and workplace discrimination.
- Despite a pledge by the DFID to promote Core Labour Standards throughout the world, no meaningful initiative has yet been taken to do so in international fora or institutions such as the World Bank, IMF, ILO or WTO. Both the DFID and international financial institutions need to ensure that all member countries of the ILO, including low-income countries, fulfil their obligation to uphold the rights enshrined in the 1998 ILO Declaration on Fundamental Principles and Rights at work in all development interventions funded by them.
- The DFID and the international financial institutions need to collaborate more closely to dispense with onerous economic policy conditions and focus on a few mutually agreed outcome-based conditions and financial accountability essential for the achievement of objectives of their development interventions and on the respect of human rights.
- It is imperative that the quota systems, voting, representation, access to resources and selection of heads in international institutions be substantially reformed in order to enable low-income countries to take part in decision-making structures.

¹¹⁹ UK Action Plan on Tackling Human Trafficking, Home Office, March 2007, available at <http://www.homeoffice.gov.uk/documents/human-traffic-action-plan?view=Binary>

- Effective measures need to be in place to ensure policy co-ordination between the World Bank and the IMF, as well as between other development agencies and donors. While a rigid division of labour between the two institutions is not advocated, the World Bank and the IMF need to continue to focus broadly on development and growth and on macro-economic stability respectively—areas in which their comparative advantages lie.
- The DFID needs to make use of its influence with governments in developing countries to facilitate consultations with trade unions by World Bank/IMF missions during their visits. This will enhance its credibility on civil society involvement in its aid programmes and encourage the governments concerned to engage in policy dialogue with trade unions.

1. The TUC welcomes the Committee's inquiry into the DFID's relationship with the World Bank, recognizes its relevance and topicality and supports its objectives in view of the growing importance of the role played by multilateral institutions in development. We note that the objectives of the DFID and those of the World Bank coincide in two broad areas of critical importance—poverty reduction and achievement of Millennium Development Goals.

2. The TUC agrees with, and supports, the broad thrust of the DFID and World Bank policies on poverty reduction in the developing world and has, in close collaboration with the international trade union movement, made representations to them on the need for the explicit recognition of the role of trade unions in development and for their greater involvement in poverty reduction strategies. While we are pleased with the progress made in recent years, a great deal remains to be achieved both in terms of policy consultation and dialogue and active and meaningful collaboration with trade unions in development interventions. This submission therefore addresses, *inter alia*, some issues and concerns over trade union involvement in development as well as some themes of particular importance to the international trade union movement.

3. Despite the explicit recognition of the importance of organized labour and of their rights by the World Bank¹²⁰ and the IMF, the policies, practices and attitudes of both institutions, relating to internationally recognized Core Labour Standards remain ambivalent or inconsistent with their declared intentions. The DFID needs to use its influence with international financial institutions, especially the World Bank and the IMF, in order to ensure that its rights-based approach to development is adequately reflected in their policies and practices, that its policy of close collaboration with trade unions and other civil society organisations is put into practice and that trade unions are given the opportunity to play their role in development initiatives funded by the World Bank and the International Development Association (IDA). It is also imperative that some key issues—gender equality and empowerment of women,¹²¹ HIV/AIDS and protection and promotion of rights of vulnerable groups such as people with disabilities and the elderly—identified by the DFID to be addressed in all its interventions be integrated into, and receive adequate attention in, development assistance programmes supported by the World Bank.

Policies on conditionality

4. The TUC appreciates the contribution made by the DFID to the review of conditionality undertaken by the World Bank and the IMF¹²² and the subsequent initiatives, following a public consultation, to transpose some of the key elements of the revised guidelines on to national policy formulation on official development assistance in 2006. Conditionality involves the use of a broad range of policy instruments through which international financial institutions seek to exercise influence over sectoral and/or macro-economic policies of recipient nations. The TUC is not opposed to conditionality¹²³ *per se*, but takes the view that conditions should not infringe upon the sovereignty of recipient nations and restrict their ability to manage their economies. Moreover, it believes that the UK Official Development Assistance should be conditional upon respect of human rights including adherence to internationally recognized Core Labour Standards—effective enforcement of right to freedom of association and collective bargaining and elimination of child labour, forced labour and workplace discrimination.

5. The TUC is in broad agreement with the six strands of the UK position¹²⁴ on terms and conditions of aid partnership and would like the DFID to collaborate with the international financial institutions and the donor community, especially, with other OECD nations to put in place appropriate mechanisms to implement the reforms of conditionality which, to some extent, it was instrumental in bringing about. The DFID has pledged to refrain from imposing conditions concerning privatisation or trade liberalisation¹²⁵ in its programmes of

¹²⁰ “Denial of workers’ rights is not necessary to achieve growth of incomes. It is possible to identify the conditions and policies under which free trade unions can advance rather than impede development. Unions are likely to have positive effects on efficiency and equity, and their potential negative effects are likely to be minimized, when they operate in an environment in which product markets are competitive, collective bargaining occurs at the enterprise or the plant level, and labor laws protect the right of individual workers to join the union of their choosing, or none at all.” p.86, WDR, Workers in an Integrated world, 1995.

¹²¹ See Gender Equality Plan 2007–2009, DFID Practice Paper, Feb 2007.

¹²² The IMF started its review of policies on conditionality in 2001 and published new Guidelines on 25 September 2002.

¹²³ Partnerships for Poverty Reduction, Changing aid “conditionally”. TUC Comments on draft policy paper, 2006.

¹²⁴ Partnerships for Poverty Reduction, Rethinking Conditionality, UK Policy Paper, March 2005

¹²⁵ “We shall not make our aid conditional on specific policy decisions by partner governments or attempt to impose policy choices on them (including in sensitive economic areas such as privatisation or trade liberalisation”, *ibid*

aid and to call upon¹²⁶ the World Bank and the IMF to do the same. Nevertheless, apart from some token gestures,¹²⁷ no substantive initiatives have yet been taken in order to persuade the international financial institutions to take appropriate and adequate measures to put the revised guidelines into practice. In this regard, it is important to point out that:

- The World Bank and IMF still resort to the imposition of economic policy conditions^{128, 129},
- The DFID itself continues to rely on the IMF analysis on macroeconomic management issues¹³⁰, albeit, not on *financing decisions*;
- Conditions on trade reforms are becoming increasingly superfluous, as accession¹³¹ to the WTO implies adherence to a set of terms and conditions¹³² that include some of the conditions on trade liberalization which used to be imposed upon countries by multilateral and bilateral donors;

6. The TUC strongly believes that the DFID and the international financial institutions, notably, the World Bank and the IDA need to collaborate more closely to dispense with onerous economic policy conditions and focus on a few mutually agreed outcome-based conditions¹³³ and financial accountability essential for the achievement of objectives of their development interventions and on the respect of human rights.

Core Labour Standards, Poverty Reduction and IFIs

7. The TUC welcomes the DFID recognition of the role of trade unions in development, the relationship of the Core Labour Standards and Poverty Reduction¹³⁴ and of the importance it attaches to collaboration with trade unions¹³⁵ in developing countries. There has indeed been significant progress in policy dialogue and consultation and in DFID support for trade union development co-operation initiatives in recent years. The DFID has pledged to promote Core Labour Standards¹³⁶ throughout the world and attached great importance to the respect for human rights and international obligations. However, these declarations have not been followed by any meaningful initiative to promote the respect for Core Labour Standards and/or collaboration with trade unions in international fora or institutions such as the World Bank, IMF, ILO or WTO.

8. The international trade union movement led by the ITUC has made representations¹³⁷ to the World Bank and IDA on the need for the observance of Core Labour Standards in development interventions funded by them and welcomed the announcement by the World Bank in 2006 to ensure the respect of Core Labour Standards in infrastructure projects funded by it. However, the Bank does not seem to have an effective, credible, long-term strategy to put into practice its policies on labour rights despite the recognition of the importance of raising the standard of living and working conditions of labour in its Articles of Agreement.¹³⁸ The 12th replenishment of IDA, adopted in 1998, included a recommendation that the Country Assistance Strategies (CAS) include assessments of observance of Core Labour Standards. In our view, this provision should be further strengthened by an obligation to ensure the observance and proper monitoring of CLS in all IDA-funded projects. The Country Policy and Institutional Assessment now includes 16 criteria grouped in four equally weighted clusters¹³⁹ and the Policies for Social Inclusion/Equity cover social protection and labour. The DFID needs to play a leading role in persuading the donor community to put pressure on the World Bank/IDA to ensure the fulfilment of the CPIA criteria in relation to the CLS.

9. Despite the criticism from the international trade union movement¹⁴⁰ over the World Bank's excessive reliance on labour market deregulation to promote employment, advocated in *Doing Business*, we note that IDA14 continues to emphasize the need for survey-based diagnostics of the Doing Business Project (DBP). The TUC has already raised the issue with the then Secretary of State for International Development and would like the DFID to proactively support the adoption of measures to promote employment in line with the

¹²⁶ "The UK Government . . . is calling upon the World Bank and the IMF and other donors to do the same", Hilary Benn, Foreword to Partnerships for Poverty Reduction, Rethinking Conditionality, UK Policy Paper, March 2005

¹²⁷ In September 2006, the DFID withheld £50m from the IDA over the attachment of conditions.

¹²⁸ See TU Statement to the Annual Meetings of the World Bank/IMF Meetings, paras 11-18, September 2006

¹²⁹ See also the example from Burundi referred to by Hilary Benn, then Secretary of State for International Development, in his speech to Royal Africa Society, 17 April 2007

¹³⁰ Implementing DFID Conditionality Policy, DFID Practice Paper, January 2006

¹³¹ Membership of the WTO now stands at 151, August 2007

¹³² See, for instance, commitments made by Viet Nam on accession on 11 Jan 2007, WT/ACC/VNM/48/Add.2

¹³³ Kicking the Habit, Oxfam Briefing Paper, Nov 2006

¹³⁴ Labour Standards and Poverty Reduction, May 2004

¹³⁵ Working with trade unions, DFID Guide

¹³⁶ "The UK Government is committed to the promotion of core labour standards worldwide . . .", Eliminating World Poverty, Making Globalisation Work for the Poor, para 254, DFIID, 2000

¹³⁷ An international trade union delegation discussed the issue with the President of the WB and the Managing Director of the IMF in November 2006.

¹³⁸ The purposes of the Bank are(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories, Article I.

¹³⁹ Report of the Executive Director of the IDA to the Board of Governors, IDA14m p45, Box 2.

¹⁴⁰ Supporting Accountability, Social Dialogue and Respect for Workers' Rights, Statement by Global Unions to the 2007 Spring Meetings of the IMF and World Bank (Washington, 14-15 April 2007).

Decent Work Agenda¹⁴¹. A number of countries eligible for receipt of IDA financial assistance have ratified ILO Conventions relating to Core Labour Standards and are required to respect them. Moreover, all member countries of the ILO, including low-income countries with a combined population of some 2.5bn, have an obligation to uphold the rights enshrined in the ILO Declaration on Fundamental Principles and Rights at work adopted in 1998.

Internal Governance

10 We welcome the UK Government's pledge to seek substantive reforms¹⁴² to the international financial institutions, including the World Bank and the IMF. The two institutions created some sixty years ago for post-war reconstruction of mainly Western Europe had their remit extended to the alleviation of poverty in the developing world. However, the shift in the geographical focus has not been accompanied with any corresponding changes to internal governing structures of the two institutions in order for the concerns and the interests of developing nations to be adequately addressed and represented in them. It is necessary to ensure that representation on governing structures of the two institutions is reflective of today's economic, political and demographic realities. At present, five out of the 24 Executive Directors of the World Bank are appointed by the United States, France, Japan, Germany and the United Kingdom while 19 others are elected by other 180 member countries.¹⁴³ The countries in Africa, except Egypt and Libya, and some island states are represented by just two Executive Directors.

11. Developing nations—recipients of financial and technical assistance from the World Bank, IMF and IDA—are not adequately represented in the decision-making processes and have so little voting power that they are unable to exercise any influence over the decisions affecting the lives of their citizens. At present, the US¹⁴⁴ alone holds 16.38% of the total voting power in the World Bank while Japan's share was 7.87% in 2006. It is imperative that the quota system, voting, representation and access to resources be reformed in order to enable low-income countries to wield more influence. In our view, the Resolution on Quota Reform¹⁴⁵ adopted in September 2006 by the Board of Governors of the IMF fell far short of expectations and is unlikely to enhance the voice of low-income countries significantly.

12. According to the Articles of Agreement¹⁴⁶ of the World Bank, the Executive Directors select a President. However, in reality, the heads of both institutions are appointed by consensus reached, mostly, among G-7 countries while the vast majority of developing nations are not even consulted on them other than through the few Executive Directors supposed to represent their interests. The President of the World Bank has been a national of the USA while the post of the Managing Director of the IMF has been held by a European¹⁴⁷ since the inception of the two institutions. Although the DFID has clearly signalled¹⁴⁸ that it would seek changes to the selection processes, the most recent events leading to the appointment of the current President of the World Bank are symptomatic of the chronic malaise felt by leading developed nations including the UK over significant reforms to the institutions concerned.

13 The representation of low-income developing nations—beneficiaries of concessionary lending by the International Development Association—within its governing structures is grossly inadequate. At present, Executive Directors of the World Bank, ex-officio, serve as Executive Directors of the IDA (and IFC). This is a wholly unsatisfactory state of affairs¹⁴⁹ that entrenches the interlocking interests of a few developed countries and perpetuates their sway over the development agenda. Although the beneficiary countries are invited to take part in the discussions leading to the replenishment of funds, they have little say in the decision-making processes.

14 At present, any amendment to the Articles of Agreements of the two institutions needs to be approved by three-fifths of the members having 85% of the total voting power. This is tantamount to the USA having a veto on any reforms, as it holds 16.39% and 16.79% respectively of the total voting power in the two institutions. It is important to point out that this is not a theoretical impediment but a practical obstacle to any reform. 131 member countries having 77.3% of the total vote have so far approved an amendment to the Articles of Agreement of the IMF authorising a new allocation of Special Drawing Rights (SDRs). The United States with 16.79% of the total vote has so far withheld its approval, thereby effectively blocking the allocation.

¹⁴¹ The Report of the ILO Director-General, Decent Work, 87th Session, June 1999.

¹⁴² "The UK Government will Work with others to build a stronger, more open and accountable International system, in which poor people and countries have a more effective voice", strengthening the International System, Chapter 8, DFID White Paper, 2000. The pledge was repeated in the DFID White Paper in 2006.

¹⁴³ There are glaring disparities in demographical terms in the current representation. The five countries—France, Germany, Japan, United Kingdom and the United States—with a combined population of some 635 million have five executive directors while the rest of the world with some 5,990 million has been allocated 19 executive directors.

¹⁴⁴ Voting Power, WB Website

¹⁴⁵ The proportion of the "basic votes" to the total votes has dropped from 11.3% from the foundation of the IMF to 2.3% today. The Resolution calls for, at least, a doubling of basic votes. However, even a trebling of the basic votes will not restore the voting power to the 1946 level.

¹⁴⁶ Article 5, Section 5

¹⁴⁷ A French national has held the post for some 32 years. Moreover, another French national appears to be the mostly likely candidate to become the next Managing Director.

¹⁴⁸ The UK will seek transparent, competitive selection processes for the heads of all international development agencies—including the World Bank and IMF and UN—to ensure the best candidates are appointed, regardless of nationality", p114, White Paper 2006.

¹⁴⁹ See Recommendations, Report of the External Review Committee on Bank-Fund Collaboration, Final Report, Feb 2007.

IMF and Surveillance of Economies

15 The IMF has, in many respects, failed to fulfil effectively its primary function of surveillance of the international monetary system with serious consequences for economic growth and income distribution, as was evidenced in the Asian financial crisis in the late 1990s. In this regard, the TUC supports the approach of the UK Treasury set out in the UK and the IMF Report,¹⁵⁰ which focuses on the need for crisis prevention. The IMF has, in recent years, been involved in development policy issues in some low-income countries to an extent considered by many to be beyond its remit. IMF interventions are no longer limited to ensuring balance of payments viability or macroeconomic stability alone.¹⁵¹ The IMF requires its members to make crucial policy decisions affecting macroeconomic stability, growth, income distribution etc. While appreciating the need for the IMF to seek changes to some domestic policies due to its obligations under the revised Article IV,¹⁵² we believe that it needs to achieve its objectives¹⁵³ in a more discreet and non-intrusive way.¹⁵⁴ Moreover, it is vital that effective measures are in place to ensure policy co-ordination between the two institutions, as well as between other development agencies and donors. Bilateral donors like the DFID often rely on macroeconomic or sectoral analyses by the World Bank and the IMF for important decisions on development assistance. As a recent review¹⁵⁵ pointed out, the lack of coordination—poor, inadequate or conflicting advice—could result in wastage of valuable resources. The World Bank and the IMF need to concentrate on issues in which their expertise and experience are most relevant without straying into each other's fields. While a rigid division of labour between the two institutions is not advocated, the World Bank and the IMF need to continue to focus broadly on development and growth and on macro-economic stability respectively—areas in which their comparative advantages lie.

16 Trade unions and other civil society organisations are willing and able to make a useful contribution to consultations by IFIs, for instance, Article IV Consultations¹⁵⁶ if they are given the opportunity by making available relevant information in advance. We welcome the increase in the publication of Article IV Consultation Reports by the IMF and support further initiatives to enhance transparency. The DFID needs to make use of its influence to support consultations with trade unions by World Bank/IMF missions during their visits to developing countries. Not only will it enhance its credibility on civil society involvement in its aid programmes, but it will also raise the profile of trade unions in the eyes of developing country governments, thereby, encouraging them to engage in policy dialogue with trade unions. Moreover, other bilateral donors are likely to follow the DFID example.

17 The TUC, in collaboration with the international trade union movement, has long campaigned in favour of substantial debt relief for developing nations and argued that the World Bank and the IMF should play a more active role in finding a long-term solution.¹⁵⁷ It is also important to point out that debt cancellation schemes including the Multilateral Debt Relief Initiative (MDRI) and Highly Indebted Poor Countries (HIPC) adopted so far by international financial institutions have not been comprehensive enough to cover all creditors -countries, banks, export credit agencies and other lending institutions.

**Memorandum submitted by the UK Consortium on AIDS and International Development
(Health Systems Group)**

With increased amounts of DFID's funding being channelled through the World Bank it is vitally important that this assistance is in line with DFID's priorities and objectives. In particular, DFID's support to the World Bank should allow for greater scrutiny of the Bank's reassertion of its role in the health sector. Assessing whether DFID's priorities in health can be pursued effectively through World Bank funding is especially timely as the UK rolls out the planning of the International Health Partnership (IHP) concept, in which the Bank has been delegated with a conceptual role and will be a lead technical partner in implementation.

¹⁵⁰ Reforming Surveillance, UK and the IMF 2006, Reform to deliver to deliver prosperity to all, March 2007

¹⁵¹ World Bank Institutional Strategy Working with the World Bank to become more effective partners, TUC Comments, Nov 2006

¹⁵² The Second Amendment to the Article of Agreement of the IMF (1978) changed its obligation from ensuring exchange rate stability to promoting a stable system of exchange rates. This was necessitated by the changes caused by the abandonment of fixed exchange rates.

¹⁵³ Article IV, Sect 1(1) requires members to endeavour to direct their economic and financial policies towards the objective of fostering orderly economic growth with reasonable price stability with due regard to the circumstances.

¹⁵⁴ A recent IMF policy paper seems to support this approach, see Article IV of the Fund's Article of Agreement, An Overview of the Legal Framework, June 2006.

¹⁵⁵ Report of the External Review Committee on Bank-Fund Collaboration, Final Report, Feb 2007.

¹⁵⁶ The IMF in 2000 agreed to systematically consult national trade union organisations during Article IV consultations. There is evidence of an increase in the number of consultations immediately afterwards. However, the IMF, following a staff survey, confirmed that the number of such consultations had declined in recent years.

¹⁵⁷ Debt Relief—The Need for sustaining the campaign over the long-term, TUC Briefing Paper, Nov 2006, <http://www.tuc.org.uk/international/tuc-12612-f0.cfm>

 THE ROLE OF THE WORLD BANK IN STRENGTHENING THE HEALTH SECTOR

1. The World Bank has a history of promoting policies such as; structural adjustment, user fees, and a decreased role of the state in service provision, none of which enabled increased access to basic health for poor women, men and children.¹⁵⁸ Health systems in developing countries have been severely under-funded for decades and the need to strengthen and, in many cases, rebuild them now is a direct result of structural adjustment programmes which undermined the public sector in many countries.

2. The Bank has recently developed a new ten year Health, Nutrition and Population (HNP) strategy in which it has positioned itself as a lead organisation on health systems strengthening (HSS) and health systems policy advice at a global level. Additionally it has worked to limit other development partners' role in HSS, explicitly the Global Fund to Fight AIDS, Tuberculosis and Malaria, a health financing partner whose programmatic reach in the three diseases and integrated health services would be sustained, given an expanded role in financing HSS. The Bank cites its expertise in health financing, incentives for workers, governance of health systems, amongst other issues, as the basis for taking greater leadership.¹⁵⁹

3. While the Bank is a key source of finance for the health sector and for health systems strengthening in the developing world, the role that the Bank has envisaged it will play vis-à-vis HSS is of concern. The role the Bank plays in imposition of limits on public-sector spending and the ongoing encouragement of the use of fees for public services countermands the UK's own policy. This has a deleterious effect on public health systems and throws into question whether the Bank can effectively lead in redeveloping health systems to expand access to the human right to health.

4. The Bank's HNP strategy calls for an increased role for the Private Sector Development and International Financial Cooperation sections of the Bank, which focus on encouraging private sector growth.¹⁶⁰ This increased focus on the private sector's role in health service delivery is problematic. There is serious evidence that private providers are unable to deliver equitable access to health services; Oxfam's research in South Asia has shown that Sri Lanka and Kerala State in India were able to provide far greater universal protection from health risks through publicly financed models of public provision, where services are free at the point of use.¹⁶¹

5. DFID must ensure that the Bank is fully accountable to them as a major donor to IDA and the lead stakeholder in the IHP. There must be consistency between the health policies of the Bank and DFID. For example, DFID should ensure that whenever DFID funding is used by the Bank, that cost recovery through user fees is not encouraged. Moreover, DFID should ask the Bank for a clear position on how to compensate for elimination of user fees. Any policies promoted by the Bank must ensure that they do not push people further into poverty, and that they actively work to prevent this.

6. The Bank has a comparative advantage in advising governments and donors on health sector financing arrangements. But they must ensure that national financing supports a vision of a well planned, well managed and well staffed public health system for all citizens, based on need rather than ability to pay.¹⁶²

7. Given adequate policy coherence, DFID should ensure that IDA expenditure prioritises the health sector and meets health goals including the health MDGs and the targets for universal access to comprehensive HIV/AIDS services. IDA could be mobilized to channel funds directly through sector wide approaches (SWAps) and help DFID to double the percentage of ODA for health, recommended to meet its fulfillment of objectives set by the Commission on Macroeconomics and Health.

8. DFID should work with the Bank to ensure that macroeconomic constraints limiting public spending and other fiscal policy conditions set by the International Monetary Fund are lifted without impeding countries access to ODA. These policies set strict limits on public spending in order to keep inflation low and meet deficit reduction targets. Whilst macroeconomic stability is important and runaway inflation is damaging, it is impossible for countries to vastly increase public spending on health unless these restrictions are changed.

9. DFID must do more to monitor the Bank's policies and the impact of these on health care provision in the developing world, and expand opportunities for civil society engagement. The UK should set an example of transparency in governance and public private partnership's in the planning and development of IHP implementation in the pilot countries.

October 2007

¹⁵⁸ Stop AIDS Campaign, *Policy Briefing: Strengthening Health Systems to Achieve Universal Access to HIV & AIDS Services*, January 2007

¹⁵⁹ McCoy, D. *The World Bank's new health strategy: reason for alarm?* Lancet 2007; 369 May 5, 2007

¹⁶⁰ Ibid.

¹⁶¹ Oxfam, 2007. *Wrong Diagnosis, Wrong Medicine: World Bank strategy for health, nutrition and population results 2007 to 2017*, Oxfam Response

¹⁶² Correspondence from NGOs and distinguished health experts to Paul Wolfowitz, January 9th, 2007.

Memorandum submitted by Ute Koczy, Member of German Bundestag, Spokeswoman for Development Politics, Alliance 90/The Greens

In January 2007, I undertook a trip to Chad and Cameroon on behalf of the Committee on Economic Cooperation and Development of the German Bundestag. The aim of the trip was to gain a first-hand impression of the situation on the ground. Together with my colleague, Dr. Barbel Kofler (SPD), we wanted to assess the extent to which the World Bank's commitment in financing the Chad-Cameroon pipeline had helped to ensure that oil extraction in Chad contributed to sustainable development in both countries, thus benefiting the people.

World Bank Group estimates had assumed that Chad would receive around \$2 billion of direct income (an average of \$80 million per year) over the 25-year running period of the pipeline. In actual fact, by the end of 2006, Chad had already received \$1.175 billion in direct and indirect revenues, and according to a recent ESSO report, the government's oil revenues in 2007 alone will amount to another \$ 1.3 billion.

The World Bank had always been keen to present the Chad-Cameroon pipeline as a model project. It was intended to serve as a beacon, in contrast to the numerous extractive industries projects with negative impacts on developing countries. Yet the sustained criticism and reports by human-rights and environmental organisations of negative developments give rise to severe doubts about this perspective. Our intention in undertaking the trip in January 2007 was to gain additional information and report on this.

The developments in Chad show that scepticism against supporting a non-democratic system was right. The autocratic President is using the oil revenue to build up armed force, which in turn allows him to consolidate and maintain his power. By a political agreement in August 2007, President Deby has managed to postpone the next elections from 2007 to 2009, which gives his government the opportunity to harvest oil revenues in the two years (2007 and 2008) that are estimated to bring to highest ever oil revenues.

Although oil exploration first took place in Chad in the 1960s, oil production has only started with the completion of the Chad-Cameroon pipeline in 2003. Today, more and more oil fields are being developed. Both the International Finance Corporation (IFC) and the IBRD participated in the financing of the Chad-Cameroon Pipeline Project and thus are responsible for the start of oil production in Chad. Without the World Bank Group's involvement, it is unlikely that any Western oil company would have been prepared to take the risk of building the pipeline. Now that the pipeline has been built and oil is flowing, the World Bank no longer has any means of exerting leverage on the government.

The security situation in Eastern Chad is worsening. The current dramatic situation in Eastern Chad has led to a UN Security Council resolution and the mandate for a new EU peace keeping mission. It has to be seen in the context of oil exploitation and oil exploration activities in Southern Chad and the subsequent oil revenues, which President Deby undeniably uses at least in part for military measures against rebels.

I herewith submit our English trip report as a written evidence to your parliamentary inquiry into the World Bank and the UK Department for International Development's relationship with it. Unfortunately, only the short version of the report is available in English. The full version in German can be found at:

<http://www.ute-koccy.de/cros/default/dok/165/165314.tschad—und—kamerun.htm>.

Yours sincerely,

Ute Koczy, MP, Spokeswoman for Development Politics

BRIEF SUMMARY OF REPORT

The Chad-Cameroon Pipeline Project, financed and facilitated by the World Bank Group, was intended to serve the economic interests of the companies concerned and those of the governments, which are actually meant to work in the interests of their people. The overarching aim of the World Bank's commitment in financing the Chad-Cameroon pipeline was to ensure that oil extraction in Chad contributed to sustainable development in both countries, thus benefiting the people.

Unfortunately, hopes that living conditions in Chad and Cameroon would improve thanks to oil revenues have not been realised. Especially in Chad, the situation is dire. The country, under President Idriss Deby, is run in autocratic fashion and with no prospects of an administration likely to work for the common good. The security situation in Eastern Chad is deteriorating, implicating increased armed fighting and worsening conditions for tens of thousands of refugees and internally displaced persons.

In this context, huge oil revenues are especially valuable to the President, who is able to use them to consolidate his power. At the same time, they make Chad attractive to rebel groups, who are fighting against Deby with increasing determination.

Our trip to Chad and Cameroon from January 19th to 26th, 2007, disclosed a major gap between the hopes and ambitions which were once linked with the building of the pipeline, and what has actually been achieved and realised. People—especially in Chad—are very disappointed that their situation has not significantly improved, that numerous faults in new buildings, in schools and water containers, have been noticed and that complaints about environmental damage and pollution (such as generation of high levels of dust), are not taken seriously.

Initially, World Bank leverage on the Chadian government has led to the establishment of the Petroleum Revenue Management Program in Chad and the implementation of Law Nr. 001. Both were elements of what the World Bank saw as “model project” to guarantee good use of oil revenues for sustainable development. However, increasing threat to President Deby’s power posed by rebel activity, together with the security of flowing oil revenues to his government, led Deby to amend Law Nr. 001 and to terminate the agreement with the World Bank on the use of oil revenue. This shows how World Bank leverage is dwindling and how the initial World Bank’s optimism—believing to influence Chadian politics favourably for the long term—was wrong.

Memorandum submitted by Elisa Van Waeyenberge SOAS (University of London)

1. This submission seeks to shed light on two related aspects of conditionality as practiced both by the World Bank (WB) and DFID:

- first, the principle of selectivity to allocate aid flows that has become increasingly popular across the donor community; and
- secondly, the way in which the selectivity practice has been applied, with a particular focus on the assessment tool at the heart of both the WB’s and DFID’s aid allocation mechanisms, the Country Policy and Institutional Assessment (CPIA).

It asserts that both the practice of selectivity and the criteria on the basis of which the latter proceeds are ill-conceived. This has potentially severe consequences for the prospects for development and poverty reduction, particularly in those low-income countries (LICs) that remain dependent on aid for their access to foreign resources.

2. Under a performance-based allocation of aid or “selectivity”, the conditionality accompanying aid no longer reflects the flow of reforms, but the state of the policy and institutional environment of a particular country. When aid flows are allocated selectively, donors set conditions that identify environments judged beneficial for development and poverty reduction, and aid is allocated accordingly. Conditions relate to past rather than future actions (policy-level versus policy-change conditionality). Selectivity could be seen as some form of “pre-emptive development”, where funds are withheld until demands made by the donors are met.

3. The selectivity discourse became increasingly formalised in the late 1990s, abetted by the appearance of a set of analytical and empirical arguments. These came to constitute a new aid paradigm, which was heavily promoted by the WB and through which the WB sought to encourage other agencies to emphasise prior actions rather than future policy promises when allocating aid flows. A paper by Burnside and Dollar (2000) was central in providing analytical foundations to the new paradigm, with the Bank policy report *Assessing Aid* (WB 1998) built around its core premise of conditional aid effectiveness. In a nutshell: aid only affects the growth rate positively if a certain set of policies/institutions are characteristic of a country; aid does not affect the policy environment; and, hence, aid should be (re-)allocated towards those countries characterized by a “good” policy/institutional environment. Such “good” policy/institutional environments broadly reflect the Country Policy and Institutional Assessment (CPIA) ratings (see below), or more narrowly focus on the “core” macroeconomic policy stances of budget surplus, low inflation and trade openness. Collier and Dollar (2002) extended the Burnside-Dollar results that aid has no impact on growth except in a “good” policy environment and that aid does not affect policy reform, into a prescriptive model of what are “poverty-efficient” inter-recipient aid allocations. It was argued that, traditionally, aid has been used to induce policy reform and, as a result, has been targeted on “weak” policy and institutional environments. Increasing poverty reduction efforts then does not necessarily require an increase in aid, but, more importantly, a change in the existing allocation of aid towards those countries that are characterized by “good” policy.

4. Without wanting to elaborate on the substantial academic debate that was engendered by the Burnside-Dollar-Collier proposition, it needs to be observed that the debate has settled on the acknowledgment that there are no analytical or empirical grounds upon which the policy stance of selectivity as advocated by Burnside-Dollar-Collier can be defended. It has been systematically illustrated that the productivity of aid does not depend on the sets of policies focused upon in the Burnside-Collier-Dollar proposition. The latter represents a biased research effort characterised by poor theoretical and empirical practice and is not representative of the broader aid impact literature.¹⁶³ Yet, notwithstanding the serious criticism that exists regarding the reliability and relevance of the proposition, the selectivity practice it advocates has been keenly adopted in the donor community with now an apparently “scientific” rationale underpinning donors’ attempts to increase their leverage in poor countries to make these comply with a set of what are perceived to be “common values”.

¹⁶³ For a good account, see Beynon, J. (2001), “Policy implications for aid allocations of recent research on aid effectiveness and selectivity”, paper presented at the Joint Development Centre/DAC Experts Seminar on Aid Effectiveness, Selectivity and Poor Performers, OECD, available at: www.oecd.org/dataoecd/15/62/2664833.pdf.

5. The core of the WB's performance-based allocation system, which applies to the distribution of its concessional resources through the International Development Association (IDA), is the Country Policy and Institutional Assessment (CPIA). The latter measures a country's performance on a set of macroeconomic, structural, social and governance criteria and then feeds into an allocation formula for IDA's resources that is sixteen times more sensitive to changes in policy/institutional variables than to changes in income per capita (as a proxy for poverty).

6. The CPIA-steered selectivity framework has been married to the recognition of the importance of ownership for the development effectiveness of aid programmes through the "negotiation" framework introduced in 1999 by the WB and the International Monetary Fund (IMF), the Poverty Reduction Strategy Paper (PRSP). The CPIA conditions the scope for alternative development and poverty reduction strategies articulated in the PRSP as it is expected that the implementation of PRSP policies reflects in a country's CPIA ratings. This reveals an implicit assumption that the former are necessarily in line with the imperatives embedded in the latter and WB documents indicate how the CPIA effectively serves as a filter between a country's PRSP and the operational realities of WB concessional assistance.

7. Since 2000, the WB has placed the CPIA in the public domain. As such, it has sought to promote the CPIA, which is rapidly becoming a standard in the broader donor community. Both the African Development Fund and the Asian Development Fund use a very similar, but independently estimated CPIA. In addition, the Debt Sustainability Framework (DSF), the framework newly formulated by the International Financial Institutions (IFIs) and which will also be used by other creditors and fora such as the Paris Club, has the CPIA at its core in determining debt distress thresholds.

8. DFID formally draws on the CPIA scores to allocate its aid resources. Following DFID's allocation formula, the starting point for determining country allocations is determined as a result of: the country's population multiplied by its (WB-provided) CPIA score (with a weighting of 2 attached to the CPIA score) and divided by its Purchasing Power Parity (PPP) income per capita. This feeds into a decision tree that takes additional relevant elements into account, which can include: MDG indicators; social inequality/income distribution; conflict/post-conflict status; political concerns; private flows; DFID's comparative advantage; etc. Note that DFID's allocations for India, China, South Africa and Indonesia are fixed outside the model.

9. With selectivity, the donor increases its emphasis on the quality of the policies and institutions of a country, as measured against a uniform ideal model captured in the CPIA, relative to need-based criteria when allocating its aid resources. This is allegedly meant both to direct resources to environments where they are expected to be relatively more effective, as well as encourage LIC governments to "improve" their policy performance (through some form of "demonstration effect").

10. The allocation mechanism, however, is riddled with serious problems with pernicious implications for development and poverty reduction prospects in LICs. First, the operational reality of selectivity threatens attempts in poor countries to raise investment rates and/or to protect pro-poor expenditures. Aid constitutes a crucial resource for least developed countries dominating their investment and budgetary processes (see Attachment 1). As a result, a decrease in aid allocations to a country may have pernicious implications for the nature of the adjustment process a country will have to engage in. Allocating aid resources to those that have already done a minimum of stabilization or structural adjustment (as captured in the CPIA) risks jeopardizing attempts in poor countries to raise their investment rates. Further, it is, on average, easier to implement pro-poor expenditures within the constraints of a particular policy environment than it is to implement an economic reform program that would include pro-poor policies (Morrissey 2001).

11. Second, the deployment of the CPIA is built on the presumption of government control over policy outcomes. The WB (2001, p 3) explicitly emphasizes that: "The CPIA intentionally measures policies and institutional arrangements rather than actual outcomes (growth, poverty reduction)—in other words, the key elements *within a country's control* that determine growth and poverty reduction". Such an approach blatantly fails to take into account the various structural parameters, both domestic and international affecting domestic policies and institutions. These typically include the state of a country's productive capacity, the skill base of its economy, its debt, its trade relations, etc, and tend to be worse the poorer the country. A simple calculation reveals that the average GNI per capita for the countries in the top quintile of the CPIA ranking is at least three times (and at times even four times) the size of the average GNI per capita for countries in the bottom quintile, illustrating the tendency of the CPIA to be biased in favor of better-off poor countries.

12. Third, the nature of the aid delivery system strongly affects the macroeconomic stability of countries characterized by large aid ratios. The selectivity proposition on the basis of the CPIA may, however, be sensitive to small changes in scores. This raises the specter of uncertainty and volatility of aid flows with negative effects on debtor countries, for instance through negative effects on investment levels and efficiency (Lensink and Morrissey 2000).

13. Fourth, there is of course the primary question of the particular policy/institutional agenda the CPIA seeks to promote and what is its relationship to economic development and poverty reduction, an issue with which the rest of this submission will be concerned.

14. Currently, the CPIA encompasses sixteen criteria grouped in four different clusters. Under “economic management” are: macroeconomic management, fiscal and debt policy. Under “structural policies”: trade, financial sector, and business regulatory environment. Under “policies for social inclusion/equity” we find: gender equality; equity of public resource use; building human resources; social protection and labour; and, policies and institutions for environmental sustainability. And, finally, the categories constituting “public sector management and institutions” are: property rights and rule-based governance; quality of budgetary and financial management; efficiency of revenue mobilisation; quality of public administration; and transparency, accountability and corruption in the public sector (WB 2006). WB staff provide scores (between 1 and 6) for each of these criteria; these scores are averaged per cluster; and the CPIA score is obtained as the average of the scores of the four respective clusters.

15. Staff on WB country desks are provided with a CPIA Questionnaire which explicitly states which policy/institutional environment merits a particular score (“narrative guidelines”). These narrative guidelines for each criterion are supplemented with guideposts consisting of both economic indicators and diagnostic reports which seek to assist staff further in assigning specific scores to the various elements of a country’s policy and institutional environment.

16. When the distinct guidelines regarding how to rate a particular country on a specific criterion are more closely scrutinised, the following transpires. The economic core of the CPIA is built around a set of particular precepts including: low inflation; an implicit preference for a surplus budgetary position; minimal restrictions on trade and capital flows; “flexible” goods, labour and land markets; market-determined interest rates; prohibition of directed credit; competition policies guaranteeing equal treatment of foreign and domestic investors (“national treatment”); “virtually” complete capital account convertibility; protection of shareholder rights (“good corporate governance”); and no restrictions on public sector procurement.

17. The development record of these various policy prescriptions (including trade liberalisation; capital account liberalisation; “national treatment” of foreign investment) has been particularly poor (and often negative), and these policies fail to capture the actual historical experience of development. In this regard, the work of Ha-Joon Chang of Cambridge University plays an important role, as it draws on extensive empirical material to illustrate how the actual experience of development has been widely divergent from the currently prevailing policy prescriptions—as also embodied in the CPIA.¹⁶⁴ The economic policies promoted through the CPIA, in effect, eliminate the possibilities for strategic interventions along which specific sectors of an economy can be promoted and the importance of which to the economic success of the now-developed countries and the East Asian “miracle” economies has been repeatedly pointed out (Amsden 1989; Wade 1990). Selective allocation of aid flows to LICs on the basis of the CPIA hence risks locking in an extensive economic policy agenda with ambiguous, if not outright negative, repercussions for growth.

18. Furthermore, there are contradictions and inconsistencies between the imperatives defended in the economic core of the CPIA and those that constitute the social cluster of the CPIA. Apart from considering social issues as an “add-on” to economic issues rather than acknowledging that the former are intricately bound up with the latter, the trade-offs between the prescriptions entailed in the economic clusters and those put forward in the social cluster are ill-appreciated. For instance, the various specifications of good policy in such areas as building human resources or social protection sit awkwardly with the stringent fiscal and monetary order embodied in the economic management cluster.

19. Also, the relationship to development or growth (and thus aid productivity) of the governance issues incorporated in the CPIA remains dramatically ill-understood. The imperatives embedded in the Public Sector Management-cluster stem from a particular (and inadequate) prescriptive approach regarding the role of the private sector and the state, and are informed by a preoccupation with corruption as a source of (static) welfare loss rather than that corruption be assessed in the historical and dynamic context of development—with the latter entailing complex and shifting underlying political-economic processes. The processes that drive development can not be understood as an unfortunate deviation from a particular norm of liberal governance, but emerge as strategies of adaptation and survival in contested settings. The implications of specific governance arrangements for growth and development crucially depend on: the particular constellation of the political-economic forces both within the state and society (and the nature of the relationships between these); the state of development; the nature of the

¹⁶⁴ See most recently: Chang, H-J. (2007), *Bad Samaritans: Rich Nations, Poor Policies and the Threat to the Developing World*, Random House.

international relations of the country; etc. The policy/institutional imperatives embedded in the CPIA matrix, whether touching upon the property rights regime, corruption, budgetary and financial management processes, tax regimes, quality of public administration or transparency in the public sector, further, at most describe what certain advanced economies could look like. Yet, there is significant institutional diversity even among industrial countries and imposing a common standard on all countries, with widely varying conditions is likely to counterproductive.

20. Rather than imposing a fixed set of policies/institutions on a widely diverging set of countries through such a mechanism as the selective allocation of aid flows on the basis of the CPIA, the imperative transpires for the “policy space” of a developing country to be left wide open so that sufficient scope for discretion exists for a government that would seek to move a country’s economy away from low productivity activities. A recent UNCTAD Report (2006, p. 288) restates the need to put the development of productive capacities at the heart of national and international policies to promote economic growth and poverty reduction in LICs. For such a purpose, policies would need to focus on promoting capital accumulation, technological progress and structural change. Such imperatives require a host of interventions such as trade tariffs, import substitution, export promotion, the extensive use of performance requirements on both domestic and foreign investment, the selective promotion of industries, massive investment in skill creation, infrastructure and support institutions. Most of these measures, however, incur a penalty under the current CPIA scoring exercise and hence are actively discouraged by the donor community.

21. In addition, the defining features of the least developed countries, including per capita income and the extent of economic vulnerability, provide sufficiently satisfactory criteria to steer aid allocations on *both* efficiency and equity grounds. Aid needs scaling-up rather than that it be preoccupied with policies that project to increase its effectiveness—with the latter often hampered by an inadequate understanding of the dynamics (domestic and international) of aid and its conditionality. At its core, donor countries’ parliaments should critically examine their government’s real (rather than rhetorical) commitment to *financing* poverty reduction efforts around the world, with Official Development Assistance (ODA) net of what are called “special purpose grants” (including debt relief, technical assistance and emergency relief) currently at a low of 0.15 percent (in 2005) relative to (OECD) donors’ national income, well below the 0.25 percent attained in the early 1990s.

22. On the basis of these observations a set of questions arise including the following:

- On the basis of what evidence did DFID decide that a performance-based aid allocation process will deliver better results in terms of development and poverty reduction?
- Has there been any assessment within DFID regarding the relationship between the various constituent criteria of the CPIA and development or poverty reduction? If not, why are these policies/institutions considered important for aid effectiveness, development or poverty reduction?
- To what extent does the historical experience of development inform the discussions around “necessary” prerequisites for development and poverty reduction?
- How does DFID seek to address the possible contradictions between the social and economic criteria embodied in the CPIA?

12/10/2007

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Attachment 1:

**AID INTENSITY INDICATORS FOR LEAST DEVELOPED COUNTRIES, 2004,
PERCENTAGES IN BRACKETS**

<i>Country</i>	
<i>ODA as share of GNI</i>	
> 50%	Burundi (54,3), Liberia (52,8), Sao Tome and Principe (61,9), Solomon Islands (47,1)
20% < 50%	Afghanistan (36,7), Democratic Rep. Congo (29,1), Eritrea (28,4), Malawi (25,6), Madagascar (26,8), Guinea-Bissau (29,4), Mozambique (22,0), Rwanda (26,0), Sierra Leone (34,6), Timor Leste (31,7), Zambia (21,6)
10% < 20%	Bhutan (10,9), Burkina Faso (12,7), Cambodia (10,3), Cape Verde (14,7), Ethiopia (18,9), Mauritania (11,1), Mali (12,1), Lao PDR (11,3), Kiribati (12,7), Gambia (16,5), Niger (17,6), Senegal (14,1), Tanzania (15,5), Uganda (17,3), Vanuatu (12,4)
5% < 10%	Angola (6,6), Benin (9,4), CAR (8,0), Chad (8,8), Comoros (6,7), Haiti (6,3), Guinea (7,5), Nepal (6,4), Samoa (8,6)
< 5%	Maldives (3,7), Sudan (4,4), Togo (3,0), Yemen (2,1)
<i>ODA as share of GCF</i>	
> 100%	Burundi (386,6), Comoros (217,8), Eritrea (122,7), Malawi (163,9), Madagascar (116,9), Liberia (346,8), Guinea Bissau (213,9), Mozambique (100,6), Niger (111,16), Rwanda (124,5), Sao Tome and Principe (169,5), Sierra Leone (318,0), Solomon Islands (134,1), Timor Leste (158,6)
50% < 100%	Angola (63,5), Benin (51,2), Burkina Faso (66,2), Cape Verde (72,3), Ethiopia (88,2), Mauritania (54,5), Mali (61,1), Lao PDR (62,3), Guinea (68,6), Gambia (55,8), Senegal (59,0), Tanzania (83,9), Uganda (75,5), Zambia (76,8)
10% < 50%	Bhutan (17,5), Cambodia (37,9), Chad (29,7), CAR (45,6), Maldives (10,3), Nepal (24,0), Sudan (18,2), Togo (16,6), Yemen (11,5)
<i>ODA as a share of GXP</i>	
> 100%	Democratic Rep. Congo (592), Guinea Bissau (170), Sierra Leone (128)
50% < 100%	Burundi (88), Cambodia (67), Chad (64), Eritrea (53), Ethiopia (79), Gambia (54), Haiti (56), Lao PDR (85), Malawi (71), Mozambique (88), Niger (91), Rwanda (78), Sao Tome and Principe (74), Solomon Islands (61), Tanzania (77), Uganda (64)
< 50%	Angola (10), Benin (40), Bhutan (29), Burkina Faso (49), CAR (34), Comoros (39), Guinea (44), Madagascar (46), Nepal (36), Togo (16), Yemen (6), Zambia (48)

Source: World Development Indicators on-line (2006 edition) for ODA as share of GNI and GCF; Moss and Subramaniam (2005) for ODA as share of GXP. GNI: Gross National Income; GCF: Gross Capital Formation; GXP: total Government Expenditure.

Memorandum submitted by WaterAid

DFID-WB/IMF POLICIES ON GOVERNANCE AND CONDITIONALITY IN WATER AND SANITATION

1. BACKGROUND

1.1 DFID is increasingly channeling water and sanitation financing through International Financial Institutions (IFIs), including the World Bank and the Regional Development Banks. In 2003–04 it is estimated that £76 million, 35% of DFID financing for water and sanitation was channeled through IFIs, up from £45 million in 1999–2000.¹⁶⁵

1.2 IFIs and donors in the urban water and sanitation sector frequently prescribe particular urban sector reform policy paths in aid and loan packages. These come with conditions clear preferences for the reform design. In the 14 countries¹⁶⁶ investigated by WaterAid, World Bank and IMF stipulate conditions that expand private sector participation in water services. These conditions are mandated through prior actions, trigger conditions, performance criteria and quantitative and structural benchmarks and indicators used by WB and IMF.¹⁶⁷

1.3 The UK Government accepts the evidence that conditionality cannot “buy” policy change which countries do not want.¹⁶⁸ In the words of the policy document: “Reforms will not be implemented—or will not be sustainable—if a partner country is acting purely in order to qualify for financial support and does not consider that the reforms are in its own interest. The UK will not make our aid conditional on specific policy decisions by partner governments or attempt to impose policy choices on them (including in sensitive economic areas such as privatisation or trade liberalisation). Instead we will agree with partners how aid will contribute to poverty reduction in a manner that can be sustained over the long term, and agree benchmarks to show what progress is being made. These benchmarks should focus on the impact of the government’s overall programme, rather than on specific policies”.¹⁶⁹

Sustainability of IFI Sector Finance

1.4 Given DFID plans to increase sector expenditure and faced with a policy of reducing departmental staff levels; it is likely that the proportion and level of financing channeled through IFIs will continue to rise. Much of IFIs financing is in the form of loans awarded with accompanying sector reform conditions. However, many public utilities in low-income countries are operating with high levels of indebtedness or are functionally bankrupt. In this instance, DFID needs to consider whether it is advisable for financing urban WSS investments to be delivered in lending operations—even where the levels of concessionality in lending instruments are high.

2. MULTILATERAL CHANNELS AND DFID’S CAPACITY TO EFFECT CHANGE IN WEAK ADMINISTRATIONS

2.1 Multilateral Financial institutions lend to the poorest countries at concessional interest rates. However, a study by WaterAid on Asia Development Bank sector financing in Nepal, Bangladesh and India, found that concessional loans for water and sanitation projects to sovereign governments are on-lent by sub-sovereign authorities at increasing rates of interest.¹⁷⁰ Concessional funding can often reach end borrowers with interest rates of between 8 and 14 percent per annum—or, on a par with market rates. DFID should work with the IFIs to review on-lending policies to ensure that that DFID’s own grant aid does not pass through a chain of multilateral, sovereign and sub-sovereign authorities and end up costing end borrowers at near market rates and result in unaffordable services and add to unsustainable debt burdens.

2.2 Given the significant level of financial support provided to IFIs for water and sanitation, WaterAid has concerns that DFID is not maintaining adequate oversight of or influence over the World Bank’s sector policies, programmes and projects.

2.3 DFID can better protect the grant element of its financial support to the World Bank’s aid by increasing the level of its investments and support for Trust Funds. These Funds can help support poverty and social impact analyses prior in all project implementation, including mapping the incidence, geographic location and gender, social identity of the poor, in the project design process. DFID should also consider placing more DFID staff with skills in pro-poor policy and service delivery in the Bank. Engagement of

¹⁶⁵ Department for International Development, Financial Support to the water sector, 2002–04 (August 2005) <http://www.DFID.gov.uk/pubs/files/water-sector-finance.pdf?search=%22DFID%20financial%20support%20to%20the%20water%20sector%22>

¹⁶⁶ These countries are Burkina Faso, Ghana, Madagascar, Malawi, Mali, Mozambique, Nigeria, Tanzania, Uganda, Zambia, Bangladesh, India, Nepal and Pakistan. The investigation looked into World Bank Country Assistance Strategies (CAS) and Project Appraisal Documents (PAD), and IMF Enhanced Structural Adjustment Policy Framework Papers and Memoranda of Economic and Financial Policies.

¹⁶⁷ The table of water supply and sanitation-sector related conditions are enclosed with this submission (Appendix A).

¹⁶⁸ DFID (2005) Partnerships for poverty reduction: rethinking conditionality—A UK policy paper March 2005

¹⁶⁹ DFID (2005) Partnerships for poverty reduction: rethinking conditionality—A UK policy paper March 2005

¹⁷⁰ WaterAid, *idem*

country programme staff in project activities should be stronger. WaterAid argues that the replenishment rounds of IFIs provide DFID with an opportunity to push for pro-poor changes in the design, implementation and evaluation processes and to make additional resources dependent upon improvements in these areas.

2.4 The following two sections review specific experiences and impacts of WB-IMF conditions in Urban Water and Sanitation Sector Reform Programmes in sub-Saharan Africa and South Asian Countries and offers key recommendations:

3. DFID-WB/IMF CONDITIONS IN WATER SUPPLY SERVICES (WSS) IN SUB-SAHARAN AFRICA AND SOUTH ASIAN COUNTRIES

PSP without commensurate regulation

3.1 In the 14 countries¹⁷¹ investigated by WaterAid, 12 countries, undergoing various World Bank lending processes or already in project implementation phases, had conditions stipulating the involvement of private water operators in the operation, management and control of public water utilities and the outsourcing of activities to the private sector. In Malawi, for example, one of the performance indicators, in the PAD for the Privatization and Utility Reform Project (2000), is the divestiture of the public water boards by June 2004. In Mozambique, private management contracts in place for five major urban water supply systems by 1999 are used as a performance indicator. Given importance of robust regulatory mechanisms for public accountability of private water service providers, there are no concomitant performance criteria requiring regulatory mechanisms to be established, for example in Nepal and Nigeria. In none of these cases was there an informed public debate over differing public sector reform options.

Cost recovery & tariff increases without support for the poor

3.2 Full-cost recovery, tariff increases and establishment of automatic tariff adjustment formulae are common structural benchmarks stipulated in IMF Memoranda of Economic and Financial Policies, for example in Mozambique, Tanzania. However, there are no supporting conditions that governments should ensure that poor people's access to WSS services is protected once tariffs rise.

Inappropriate sanitation projects

3.3 The focus of IFI supported interventions has been on large scale projects often with inappropriate central sewerage systems. Existing technologies of networked sewerage systems where on-site sanitation systems are linked are expensive, water-dependent and not always appropriate especially in countries that are suffering from water stress and scarcity. World Bank investments in urban sanitation have not adequately encouraged alternative sanitation solutions and the promotion of locally appropriate designs. Experiences of development NGOs in Karachi, Lahore, Faisalabad in Pakistan in designing low-cost sanitation and sewerage and wastewater treatment, in collaboration with the public utilities in those cities need to be better understood by the Bank, and the lessons promoted.¹⁷²

PSP has become the language of PRSP and WB CAS

3.4 This focus on expanding and facilitating the role of the private sector in water supply and sanitation services is usually carried forward in World Bank Country Assistance Strategies plans (in Ghana, Madagascar, Mali, Mozambique and Zambia). PSP options also appear in PRSPs without sufficient national debates around plausible policy alternatives.

4 IMPACT OF DFID-WB/IMF CONDITIONALITIES ON PSP IN BANK SUPPORTED URBAN WATER SECTOR REFORMS PROGRAMMES:

4.1 Urbanisation is contributing to a major sanitary crisis in urban areas. And in many low-income countries the dismal state of sanitation in dense urban slum settlements has been the cause of cholera outbreaks. By historical design, water and sanitation are not the direct responsibility of the same government agency—water ministries or the public utilities. Instead, the responsibility for sanitation and environmental sanitation (sanitation in public spaces, waste collection and disposal) is fragmented amongst

¹⁷¹ These countries are Burkina Faso, Ghana, Madagascar, Malawi, Mali, Mozambique, Nigeria, Tanzania, Uganda, Zambia, Bangladesh, India, Nepal and Pakistan. The investigation looked into World Bank Country Assistance Strategies (CAS) and Project Appraisal Documents (PAD), and IMF Enhanced Structural Adjustment Policy Framework Papers and Memoranda of Economic and Financial Policies.

¹⁷² For more information on the Orangi Pilot Project's low-cost sanitation model, <http://www.wateraid.org/documents/plugin—documents/fromlanetocitypakistan.pdf>

a number of government agencies and departments. DFID need to encourage the World Bank to support sub-sovereign investments in alternative urban sanitation solutions and the promotion of locally appropriate designs, involving civil society and in collaboration with the public utilities in cities.¹⁷³

4.2 Urbanisation is enlarging the areas and number of people un-served by public water supply utilities. In all developing countries, the public sector carries the primary responsibility for service delivery in urban areas. Public utilities currently serve up to 95% of the population served through piped network systems. However, by and large the record of Public utilities' performance in delivering services that reach impoverished communities is poor and in need of pro-poor reform.¹⁷⁴ The challenge is in understanding the causes of poor performance in order to enable effective reform to happen. Successful reform of public utilities has happened—in Kampala, in Tamil Nadu, in Phnom Penh—and it is important for DFID to learn the lessons and promote and share these lessons in support of pro-poor public utility-led reform processes.¹⁷⁵

4.3 The World Bank¹⁷⁶ has identified a range of desired reforms in public utilities. These include securing the operational and financial autonomy of the public utility from political interference; ensuring a clear performance contract between the utility and the government agency responsible for its control; establishing independent regulation of the public utility, changing culture so that there is attention to 'customer care'. In addition, experiences especially in Latin America highlight the importance of independent, citizen-led accountability mechanisms.¹⁷⁷

4.4 The challenge facing public utilities is designing tariffs and subsidies so that people gain sustainable and affordable access, and price does not become a barrier, and that those who are poor and unable to pay are able to consume water to the required levels for health and hygiene. Experience and evidence points to a need to subsidize connection fees¹⁷⁸—making connections free for the poor, investing in widening the coverage of water supply systems, and establishing a subsidized water fee system that is transparent and targeted primarily at poor people. DFID needs to consider how its funds channeled through the IFIs for investments in urban water and sanitation services can help governments to meet these goals. One way to do this is for DFID to support economic and social impact analyses to inform the design of utilities' tariff and subsidies.

4.5 Water and sanitation investments have not tended to win large scale interest from the private sector.¹⁷⁹ In fact, private sector investments in water and sanitation were only 5% of total private investments in infrastructure, in the 90s.¹⁸⁰ There is now a sufficient body of evidence that casts serious doubt on the capacity of multinational corporations to provide affordable access to water and sanitation in developing countries.¹⁸¹ In the past decade, private companies have managed to extend water service to just 10 million people, less than 1 percent of those who need it.¹⁸²

4.6 The ability of governments to deliver on the MDG targets for water and sanitation in urban areas will be determined by the ability of public utilities to reform and improve performance, the ability of governments to capture the positive potential of NSPs, develop appropriate sanitation solutions and embrace public engagement and means for public accountability. DFID needs to consider the role it can play in this agenda.

KEY RECOMMENDATIONS TO DFID

- Increases in multilateral aid should be accompanied by strengthened engagement with international financial institutions to ensure that the policies and lending practices of these institutions are pro-poor and do not impose policy conditions.
- Review the outcomes and effectiveness of donor facilities created to facilitate multinational company involvement in WSS infrastructure, and assess the degree to which private sector participation has led improvements in pro-poor service delivery.

¹⁷³ For more information on the Orangi Pilot Project's low-cost sanitation model, <http://www.wateraid.org/documents/plugin—documents/fromlanetocitypakistan.pdf>

¹⁷⁴ See for example the International Benchmarking Network for Water and Sanitation Utilities for indicators of performance of public water and sanitation utilities in Asia, Africa, Europe and other regions. <http://www.ib-net.org/>

¹⁷⁵ See Wateraid & World Development Movement, Reforming public utilities to meet the Water and Sanitation MDG <http://www.wateraid.org/documents/reforming—public—utilities—07.06.pdf>

¹⁷⁶ Baietti, A.; Kingdom, W. and Ginneken, M. van, Characteristics of well-performing public water utilities (2006) <http://siteresources.worldbank.org/INTWSS/Resources/Workingnote9.pdf>

¹⁷⁷ Balanya, Brennan et al, Reclaiming Public Water, Achievements, Struggles and Visions from around the world (2005) <http://www.tni.org/books/publicwater.pdf> See specific chapters on Porto Alegre, Caracas and Recife.

¹⁷⁸ For more discussion on the regressive nature of water utility subsidies, see Komives 2005, World Bank.

¹⁷⁹ According to a WDM's report 'Pipe Dreams' only one per cent of promised private sector investment in water globally since 1990 was targeted at sub-Saharan Africa www.wdm.org.uk/resources/briefings/aid/pipedreamsfullreport.pdf

¹⁸⁰ See International Herald Tribune <http://www.iht.com/articles/2006/03/20/news/water.php>

¹⁸¹ The experience of the private sector's role thus far is of higher user fees and a failure to secure affordable access to services for those in absolute poverty and the, so-called, "near poor". Water privatization contracts in Guyana, Tanzania, Guinea, the Gambia and South Africa, have all ended after poor performance

¹⁸² See International Herald Tribune <http://www.iht.com/articles/2006/03/20/news/water.php>

- Recognize the increasing challenge of urbanization in the delivery of water supply and sanitation to poorer communities. DFID's should work with the Bank's water and sanitation anchor in the review and development of a fresh strategy to address the issues of public utility reform, the role of Non-State Service Providers, urban sanitation, and social control or citizen-led accountability mechanisms
- Develop a programme of work, with the World Bank and recipient governments, to support the reform of publicly-run utilities to deliver pro-poor services. Look to support the promotion of utility-led reforms, and the lessons from well-performing public utilities. Encourage the Bank to look into supporting partnerships between public utilities for purposes of learning and support for improving performance.
- Encourage the World Bank to assist governments to improve the regulatory environment and to create opportunities for local NSPs to be integrated into the public water and sanitation delivery system.
- Review the efficacy and value of DFID's grant financing support for IDA and other soft loans' facilities that pass through a financing chain of escalating interest rates and end up with sovereign borrowers accessing DFID's aid at near market rates. DFID should consider whether this is the best use of UK aid and whether its financing is leading to public utilities accumulating levels of unsustainable debt and, in effect, functional bankruptcy.
- Consider how best to target subsidies to the poor—at least their connection to public service providers—to help achieve universal access to adequate and sustainable access to water supply services.
- Work with the World Bank and partner governments and other donors to address the urban sanitation crisis, including the creation of national sanitation plans and coordination bodies capable of identifying systemic bottlenecks and building institutions with the flexibility to respond
- Ensure that the World Bank's policy reform preferences include the promotion of and pro-poor regulation of locally appropriate schemes.
- Support the inclusion of civil society groups and (the domestic equivalent of) consumer groups in publicly accountable social “audit” mechanisms that can hold both public and private service providers to account. To help build “water dialogues”¹⁸³ on direction of urban WSS reform in countries.
- Build up the capacity of the Bank to support *ex ante* poverty and social impact analyses in urban WSS reform processes.

QUESTIONS FOR THE IDSC TO PURSUE IN THEIR INQUIRY OF DFID RELATIONSHIP WITH THE WORLD BANK:

1. Will DFID make its financial support for IDA conditional on the Bank developing all sector reform projects on *ex ante* poverty & social Impact analyses (PSIAs)?
2. How can DFID ensure the World Bank supports and enable a transparent and consultative decision-making process over the approaches to water services reform, and to the establishment of robust water and sanitation regulatory systems?
3. How has DFID promoted its expressed support for “public-public partnerships” (PuPs) in the reform of water utilities in developing countries, in its dialogue with the World Bank?
4. How can DFID prevent its grant financial contributions for the World Bank's IDA facility ending up with “end borrowers” at interest rates on a par with commercial lenders? How can DFID ensure that its finance does not pass along an interest rate escalator between the Bank and sovereign and sub-sovereign recipients? Should DFID consider rechanneling its support for IFIs financing of the water and sanitation sector to Trust Funds?

Memorandum submitted by WorldVision

POLICIES ON GOVERNANCE AND CONDITIONALITY

World Vision is a Christian relief, development and advocacy organization, dedicated to working with children, families and communities to overcome poverty and injustice. Motivated by our Christian faith, World Vision is dedicated to working with the world's most vulnerable people. World Vision serves all people, regardless of religion, race, ethnicity or gender.

¹⁸³ www.waterdialogues.org

We welcome the opportunity to respond to the inquiry on DFID and the World Bank with a particular focus on policies on governance and conditionality. In recognizing that the UK channels around 40% of its aid through multilateral organisations, it is essential that these channels are effective and promote and not undermine widely developed internal poverty reduction plans. Based on World Vision UK's work in various countries, we hereby present two issues:

1. The DFID white paper underscores the importance of good governance for poverty reduction and explores it from the angle of state capability, responsiveness and accountability. Responsiveness concerns itself with whether public policies and institutions respond to the needs of citizens and uphold their rights, whereas accountability is concerned with the ability of citizens, civil society and the private sector to scrutinise public institutions and governments and hold them to account.¹⁸⁴

While the DFID policy profiles the issues above, the World Bank, a key actor in development, is still falling short of promoting governments to citizens' responsiveness and internal accountability, through the continued use of conditionality. A World Vision publication based on evidence from Zambia and Bolivia and entitled, "Poverty Reduction: are the strategies working?" explores this with examples of multilateral conditionality prescribed by among others, the World Bank. The study concludes that there has been a failure to shift from donor use of conditionality for poverty reduction to effective domestic accountability mechanisms that sufficiently draws on citizen engagement. World Vision is concerned that this failure undermines both aid effectiveness and governance initiatives (both policy and practice) and the achievement of poverty reduction results.¹⁸⁵ This would perpetuate voice without influence and weakens citizens' ownership of the development agenda, resulting in donors aligning and harmonising around a weak or even illegitimate development agenda with the potential for poor development results.

2. The DFID white paper speaks to supporting the African Peer Review Mechanism launched by the New Partnership for Africa's Development (NEPAD) as a means to improve country governance.¹⁸⁶ World Vision underscores the need to recognise and support regional bodies and institutions in promoting good governance as important in strengthening decentralised development processes and providing sustainability to governance oversight practices.

Unfortunately, the World Bank's Governance and Anti corruption strategy does not "explicitly" promote peer review nor does it profile regional bodies as key actors in the promotion of good governance.¹⁸⁷

Memorandum submitted by WWF-UK

INTRODUCTION

1. WWF welcomes the opportunity to submit evidence to the select committee enquiry on DFID's funding of the World Bank.¹⁸⁸ As increasing proportions of DFID's budget go through other institutions, including the Bank, WWF-UK is keen to ensure that these funding flows contribute towards sustainable development and environmental sustainability.

2. WWF is uniquely positioned to comment on these issues, as WWF's work is worldwide, with offices in more than 50 countries. Our experience across the developing world includes work on freshwater, biodiversity, climate change, forests, trade and energy. We work in partnership across the globe with civil society, national governments and multi-national agencies towards our goal to build a future in which humans live in harmony with nature. WWF was the first environmental organisation to hold a Partnership Programme Agreement with DFID.

3. Our submission focuses on two areas of World Bank activity. The first area focuses on the extent in which the World Bank is responding to **climate change** by helping developing countries to move to low carbon development pathways using the WWF vision for energy as a benchmark, and what DFID could do to ensure the Bank takes up its responsibilities with regards to climate change. The second area looks at the importance of **good governance for social and environmental sustainability**, and compares DFID's work on good governance with the practice of the World Bank. 4. Our submission is based on two new WWF reports focussing on these two areas, attached to this submission.¹⁸⁹ Our arguments are based on these reports, and more detailed information and evidence for our submission can be found there.

¹⁸⁴ DFID, Making governance work for the poor, July 2006.

¹⁸⁵ World Vision, Poverty Reduction: are the strategies working? 2005.

¹⁸⁶ DFID, Making governance work for the poor, July 2006

¹⁸⁷ World Bank, Strengthening World Bank Group Engagement on Governance and Anticorruption, March 2007.

¹⁸⁸ "World Bank" or "the Bank" in this report refers to all institutions of the World Bank Group. Where a specific institution is concerned, this is specified.

¹⁸⁹ "Is the World Bank helping developing countries move to a low-carbon future", WWF-UK, Alison Doig and Lies Craeynest, October 2007; "Research on World Bank and Environmental Governance", Steve Herz for WWF-UK, October 2007. Reports will be available from the WWF-UK website.

 CLIMATE CHANGE AND THE WORLD BANK

5. The world is warming and a concerted effort is required in the coming years and decades to avoid a global temperature rise above 2°C and the impacts of catastrophic climate change. Without urgent and rapid efforts to reduce global carbon emissions, the Intergovernmental Panel on Climate Change (IPCC) predicts possible temperature rises 4°C or more in the next century.

6. WWF has demonstrated in its recent report “Climate Solutions: WWF’s Vision for 2050¹⁹⁰” that it is technically feasible, globally, to make the shift to sustainable energy resources and that technologies are available today to meet the more than doubling of global energy demand projected by 2050, while avoiding dangerous climate change of more than 2°C above pre-industrial levels. The trajectory proposed by WWF includes an end to the dominance of fossil energy, a phase-out of nuclear power, delivery of high efficiency energy services, and a rapid expansion of renewable energy. However it also cautions that, *in five years it may be too late to initiate a sustainable transition* which could avert a breach of the two degree threshold for avoiding dangerous climate change.

7. The World Bank has been active in the energy field for five decades and is an important player in energy provision in the developing world. As a public institution aiming to contribute to poverty reduction, it has major responsibility in providing solutions to avoid global temperature increases of more than 2°C, as poor countries and people stand to lose out most in a warmer world. The World Bank has the potential to be a leader for sustainability, not just because of the investments it makes, but because of the global leadership role it has for both public and private sectors.

8. However, a recent comparison between WWF’s energy Vision for 2050 and the World Bank’s energy portfolio raises serious concerns about the current contribution of the World Bank to a sustainable energy future.

Vision and Strategy

9. The World Bank has failed to produce a vision towards a low-carbon future to ensure global temperatures stay below 2 degrees Celsius. Without a clearly articulated vision and trajectory, it is not possible to define strategies and targets to inform investments needed now for a sustainable energy future by 2050. Investments made now will have a generating capacity for decades to come. WWF recommends that the World Bank adopts the WWF energy Vision for 2050, or at least develops an own, credible vision that will contribute to sustainable clean energy provision for human development which will keep temperatures increases below 2 degrees Celsius.

10. The World Bank’s “Clean Energy for Development Investment Framework” presents a general strategy for encouraging “low-carbon” projects, but the World Bank Energy Sector has no specific targets to decarbonise its investment portfolio. The only target the World Bank has set itself with regards to action on climate change is that it will increase its investment to renewable energy with 20% year on year until 2008. Without ambitious targets for reducing the overall carbon intensity of its financing portfolio, there is no incentive for the Bank to make the transition from reducing the carbon intensity of fossil fuel extraction and use, towards a truly low-carbon future which is based on high efficiency end use and very low-carbon renewable.

Energy Financing Portfolio

11. The report reveals that the World Bank is following a double track approach to energy supply:

A new low-carbon direction: a relatively progressive programme on new renewable energy and energy efficiency. This strand has accounted for about 10% of World Bank energy financing since 1990 (4.7% new renewables and 5% energy efficiency).

A conventional fossil fuels direction: a “business as usual” approach supporting fossil fuels and fossil fuel driven power supply, which has often failed to benefit the poor but has an enormous impact on carbon emissions (accounting for around 77% of World Bank energy financing, one third of which is on oil, coal and gas extraction).

12. Between 2005 and 2006, the energy sector in the World Bank received a massive increase in funding (76.2%). However, the Bank has opted to invest this new money in the same way as it has been investing for years, with the large majority going to oil, gas and conventional power, despite the clean energy pledges the Bank has made in the Clean Energy Investment Framework.

13. Recently the World Bank has started reporting on the carbon intensity of its energy investments. These show that over the past five years only about a third of World Bank spending is classified as investment in low-carbon energy. While the percentage of low-carbon energy investment has started increasing, representing almost 40% in 2007, it still remains less than half the overall energy portfolio. This means that over 60% of World Bank energy financing has no climate change considerations at all.

¹⁹⁰ WWF. 2007. Climate Solutions: WWF’s Vision for 2050, WWF, Gland, Switzerland.

14. The Bank's classification of low carbon technologies allows it to some extent to continue spending as usual. They include a large range of significant carbon emitting power plants, such as clean coal and large hydropower plants. Only just over a third of the financing defined as "low-carbon" in 2005 and 2006 was on new renewable energy and energy efficiency. The renewable energy options are zero carbon emitters, but receive far less investment.

GOOD GOVERNANCE AND THE ENVIRONMENT

15. DFID has produced a number of strategy documents that emphasize the overriding importance of good governance for poverty reduction. These include: *Governance, Development and Democratic Politics: DFID's work in building more effective states* (2007); *Eliminating World Poverty: Making Governance Work for the Poor* (2006); *Partnerships for poverty reduction: rethinking conditionality* (2005); and *Realizing Human Rights for Poor People* (2000).

16. DFID defines governance broadly to include all the ways in which "citizens, leaders and public institutions relate to each other in order to make change happen." The White Paper concludes that good governance requires three things: *State capability, Responsiveness and Accountability*. In this regard, the extent in which civil society is enabled to participate in public policies and projects, including those of international institutions, is crucial for the good governance, and therefore pro-poor and sustainable impact of these policies and projects. Meaningful participation by affected communities means that they have the opportunity to make decisions for themselves, or have real influence over those who do. DFID has recognized the importance of participation of poor people as one of three key pillars in their rights-based approach to development which "incorporates the empowerment of poor people into our approach to tackling poverty." Both environmental and social impacts of World Bank funding lie often at the very project level, so the systems and mechanisms that govern project decision making, implementation and monitoring are critical for accountability and good governance. This submission focuses specifically on accountability at project level.

17. As well as improving development outcomes, good governance lies at the very heart of the environmental sustainability agenda. Because environmental issues often play out at a localised level, environmentally relevant information will often get lost if there is no sufficient and full participation in decision making processes. DFID recognises this in its approach to the environment. Two key insights animate DFID's approach to the environment. First, DFID has recognized that environmental degradation disproportionately affects poor people, thus sound environmental stewardship is central to pro-poor development. Second, DFID has also recognized that "**institutional and governance failures underlie the environmental problems facing poor people.**" As a result, environmental challenges are inextricably linked to both DFID's overarching poverty reduction mandate, and its focus on improving governance in developing countries.

18. Although DFID has consistently recognized the importance of good environmental governance to its overarching objectives of poverty reduction and sustainable development, its Institutional Strategy for working with the World Bank is limited in scope and ***fails to systematically align DFID's good governance, environmental, and sustainable development priorities with its interventions at the World Bank.*** As increasing amounts of funds will be disbursed through the Bank and through other multilateral institutions, it is crucial that the institutional strategy for these partnerships include the promotion of DFID's policy priorities, with measurable targets against which the World Bank should be monitored.

Participation in World Bank projects

19. The World Bank has been accused of not allowing meaningful public participation in its project cycles. In response, the World Bank has made some improvements, but much more needs to be done to ensure the right procedures are in place to allow for full and effective participation.

20. There are a number of systemic constraints that have limited public participation in Bank-supported projects. These have been raised and discussed by the World Bank's own internal evaluation procedures, as well as by a large number of reports from the Inspection Panel, the independent evaluation body of the World Bank. While there are of course also in-country constraints to full significant participation, there are a number of institutional areas which the World Bank could tackle to allow for meaningful participation. They are the following:

- The Bank's Information Disclosure Policy limits informed participation.
- Participation usually does not occur until project preparation and appraisal, thus preventing opportunities to consider alternative approaches.
- There is weak participation during monitoring and evaluation of projects

- There are internal disincentives for task managers, with participation perceived as an add-on rather than integral to an operation.
- There are inadequate benchmarks, standards and learning systems in the Bank to improve participation
- The Bank's accountability mechanism (Inspection Panel) for meaningful engagement is not sufficient

Governance and Transparency in Natural Resources

21. One of the key areas where problems with governance and transparency have occurred in World Bank projects is in the **natural resources** sector, particularly in the oil and gas sector, but also in other sectors such as forestry. A quick overview of recent Inspection Panel reports, which provide objective and independent information on Bank projects, reveals repeated concerns around the governance and transparency of project management in the Bank. In many cases, this has had a direct impact on the environment and on fragile ecosystems. Some of the problematic cases are highlighted below.

22. **Democratic Republic of Congo**¹⁹¹: The Inspection Panel has recently completed its investigation of the World Bank funded project in the Democratic Republic of Congo: "Transitional Support for Economic Recovery Credit and Emergency Economic and Social Reunification Support Project". The findings are expected to be released at the end of October, and raise a number of governance and transparency concerns, including the failure of compliance of the World Bank with its own policies (on Indigenous Peoples, Cultural Property, Environmental Assessment and Natural Habitats). The evaluation found further shortcomings, such as a lack of attention to capacity needs of the DRC government to put in place necessary governance frameworks to manage forest logging, the downgrading of projects to lower levels of potential environmental risk, and failure to carry out environmental and social impact assessments. There was a lack of transparency on project information towards civil society, and indigenous people were not included in project planning.

23. **Ghana/Nigeria: West Africa Pipeline**¹⁹²: No report has been issued yet, but a request filed by complainants has been declared eligible by the Inspection Panel, and an investigation is underway. The main allegations are that the project will do irreversible damage to communities and precious ecosystems, and that the scope of the Environmental assessment has been too narrow. Information disclosure and participation has been inadequate and limited. The Bank has acknowledged that there has been a lack of information disclosure. It also has started to take some action in response to the claimants' requests, but a full investigation is underway.

24. **Chad-Cameroon pipeline**¹⁹³: The Chad-Cameroon pipeline was inaugurated in 2004 amidst complaints from local communities over the social and environmental consequences of the project. The World Bank's Inspection Panel investigated the World Bank's involvement in this and found that there had never been a Strategic Environmental Assessment undertaken, despite this being one of the largest and most controversial oil and gas developments undertaken in the last decade.

25. The above are just a few examples of governance problems raised through the independent evaluation body of the Bank. A lot of improvements need to be made to ensure that the World Bank improves the governance and transparency of the projects it funds, and ensures it follows its own good practices for social and environmental safeguards. Considering DFID has prioritised good governance as a major strategy for achieving its poverty reduction objectives, it should promote those same principles in the partner institutions which it funds and with which it works.

The World Bank and Guidelines for Mining Investment

26. A substantial part of a good governance agenda at project level is that rigorous social and environmental impact analysis is undertaken and safeguards are in place to stop damaging impacts for people and communities. Public participation and involvement in decision making are crucial to make these safeguards work and empower people to play a part in their own futures.

27. The International Finance Corporation (IFC), the private sector arm of the World Bank, has recently held a consultation on a draft set of guidelines for managing the environmental and public health impacts of its controversial large-scale mining projects. However, the draft guidelines ("Environmental, Health and Safety Guidelines for Mining" [EHS Guidelines]) are marked by significant gaps and omissions which could have detrimental impacts for local communities and environments.

¹⁹¹ Briefing from the Rainforest Foundation: The World Bank Inspection Panel on the World Bank Group's interventions in the Democratic Republic of Congo. 4 October 2007.

¹⁹² Final Eligibility Report and Recommendation on Request for Inspection. Re: Request for Inspection GHANA: West African Gas Pipeline Project (IDA Guarantee No. B-006-0-GH) Inspection Panel Recommendation <http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/FinalEligibilityreport.pdf>

¹⁹³ Chad Petroleum Development and Pipeline Project, Management of the Petroleum Economy Project, and Petroleum Sector Management Capacity Building Project (2001) <http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/ChadInvestigationReporFinal.pdf>

28. “*Undermining Communities and the Environment*¹⁹⁴”, a review by WWF and other NGOs, including Oxfam America, of the draft guidelines has revealed that the new guidelines do not even meet the mining industry’s own existing “best practice”. The IFC’s social and environmental policies and guidelines are especially important because they are used by private banks who are signatories to the Equator principles. Lowering the IFC standards could result in lowering standards across the industry.

29. The review lists the shortcomings of the new IFC mining guidelines in detail, but some of the general weaknesses are listed here:

- Failure to prevent contamination of local water sources by toxic chemicals
- Failure to ensure proper disposal of mine waste
- Failure to guarantee prior community consent on the design of mine closure plans
- Lack of IFC indicators that report meaningfully on the poverty reduction impact
- Lack of sufficient quantitative standards and targets for IFC project approval, meaning that there is no consistent and measurable way to ascertain whether a project complies with “best practices” and meets IFC safeguard policies.
- No identification of practices that will *not* be supported by the IFC, including projects that are proposed in sensitive environmental areas, such as strictly protected areas.
- Not enough consideration is given to the impacts of climate change on the predictive modelling used to determine potential impacts of mining on the natural environment.

30. The consultation period closed on 7 September, and the EHS mining guidelines are currently being reviewed. If the guidelines are to provide adequate guidance to ensure that new mines meet accepted criteria for best practices in mine design, operation and closure, they will need to address these very serious omissions and shortcomings.

SUGGESTED QUESTIONS TO DFID

Will DFID act on its recognition that climate change could undo much of the current and future progress in lifting people out of poverty, and urge the Bank to put in place an energy finance strategy based on the scientific need to keep carbon emissions below a safe level to avoid a 2 degree Celsius temperature change, that is socially and environmentally sustainable?

Will DFID urge the Bank to set ambitious annual and long-term targets for the reduction of its financial, technical and policy support for fossil fuels, for increased support for new renewable energy and sustainable energy technologies, and for reducing the carbon emissions from its investments (both total carbon footprint, and emissions per US\$ financed)? Will DFID press for annual monitoring and reporting on clearly separated categories (new renewables, energy efficiency, low carbon)?

In light of the fact that certain renewable energy sources have severe social and environmental impacts (such as biofuels, large hydropower), will DFID call for a refining of the Bank’s classification of “low-carbon” technologies to ensure that unsustainable carbon emitting technologies are excluded from the ‘sustainable low carbon’ category?

What mechanisms will DFID put in place to ensure that any new funds channelled through the World Bank to tackle climate change will contribute to renewable energy systems that benefit the poor, and how will it ensure that existing governance concerns are addressed?

How does DFID intend to improve the accountability of the World Bank, considering participation processes are often not adequate, and the current ex-post accountability process (Inspection Panel) is slow, not well known, and manages to investigate only a few projects?

What does DFID expect from the Bank in response to repeated Inspection Panel concerns raised on governance of its projects to ensure that governance in future natural resource projects improves?

How will DFID ensure that the final EHS mining guidelines help safeguard sustainable development and address many of the shortcomings identified by a coalition of development and environment NGOs?

October 2007

Supplementary memorandum submitted by WWF-UK

Following our oral evidence to the International Development Committee on DFID’s funding of the World Bank in the context of climate change and environmental commitments, we would like to add some further comments.

The inquiry is indeed very timely considering the recent news that the UK has overtaken the US as the World Bank’s biggest donor with a total IDA pledge of \$4.2 billion.

¹⁹⁴ <http://www.earthworksaction.org/pubs/IFC%20Mining%20Guidelines—20070904.pdf>

In the light of issues raised by Ann McKeichin MP concerning the IFC investment in gas, and the commercial nature of IFC lending, I am sending this follow up note.

1. Access to information on the distribution between oil, coal and gas investments of the World Bank Group institutions is still very limited for civil society organizations because of a lack of transparent and consistent reporting. Until 2006 oil and gas, on the one hand, and coal, on the other, were separately reported. In 2007 only figures for oil, coal and gas combined are available. Part of our call to DFID is to ensure more transparent and consistent reporting from all WBG institutions.

2. I would stress that, while the IFC may claim this year to have invested 70% in gas rather than oil and coal, this has not been due to any specific policy commitment to invest in gas as part of a package to tackle climate change. There is no guarantee, therefore, that the IFC's investments will not revert to major investment in oil and coal in future years. There needs to be a firm strategy and clear policy commitments to address this.

3. Hugh Bayley MP raised the issue that IFC lending is on a commercial basis, and is therefore not bound by ODA commitments and restrictions. However, the IFC is a publicly governed institution, and shares its mission with the World Bank. This is explicitly stated on its website: IFC, as the private sector arm of the World Bank Group, shares its mission: *"To fight poverty with passion and professionalism for lasting results. To help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors"*. Fighting poverty today needs to take into account the battle against climate change. Furthermore, though the IFC highlights climate change as a strategic priority throughout its operations, this has not yet been translated into strategic policy.

4. WWF believes that the UK, as the largest donor to the World Bank, needs to ensure that the Bank develops an ambitious energy finance strategy based on the need to keep global temperature increases below 2 degree Celsius. In line with this, the World Bank needs to agree short term annual targets for the reduction of its financial, technical and policy support for fossil fuels, as well as for new renewable energy and sustainable clean energy technologies. DFID needs to ensure that new definitions of 'low-carbon' technologies exclude socially and environmentally unsustainable technologies, and that any remaining investment in fossil fuels includes an objective of significant reduction in carbon emissions, including carbon capture and storage wherever technically feasible.

Lies Craeynest

International Development Policy Adviser

20 December 2007

Memorandum submitted by UNISON

Please find below the UNISON International Unit's evidence in respect of those aspects of the enquiry which are most appropriate for UNISON to comment on.

1. UNISON is the major union for workers in public services in the UK, with nearly 1.4 million members. UNISON has a long history of involvement in development issues through and with its sister public service unions in developing countries. Its International Development Fund has enabled UNISON to directly funded capacity building work of sister public service unions in nearly 30 developing countries, many of which are subject to Policy Support Instrument, Poverty Reduction and Growth Facility, and Heavily Indebted Poor Countries Initiative mechanisms. These mechanisms operate to bind IMF and World Bank policy and practice, so the agendas and activities of the two institutions often shade imperceptibly into one another.

2. In May 2007 UNISON participated in a joint delegation with Oxfam to Malawi to investigate conditions in the country's public health and water services.

3. UNISON has the following comments to make relating to the following points from your suggested framework: a) whether funding through the World Bank is an effective mechanism for advancing DFID's overriding priority of progress towards the Millennium Development Goals; b) the impact of World Bank conditionality on governments and the poor.

4. UNISON recently made a consultation submission to DFID regarding its Country Assistance Plan 2007–11 for Malawi. It became clear to UNISON in the course of dialogue with our sister public service unions in Malawi and the Unit's own research, that DFID's own significant efforts to support the development of services providing essential basic needs to the poor majority in Malawi are being undermined by the policies and practice of the World Bank—which DFID, as the Committee is already aware, provides significant funds to.

5. DFID's own Country Assistance Programme for Malawi refers to the need for greater investment in services which seek to address unmet essential basic needs. At the same time, DFID/UK Government is set to increase its funding to the World Bank, which through its close relationship with the IMF, are the very

institutions which act to depress and restrict recurrent public expenditure and promote privatisation through the application of the Policy Support Instrument, Poverty Reduction and Growth Facility (PRGF), and Heavily Indebted Poor Countries' Initiative mechanisms.

6. The Malawian Government agreed a new PRGF with the IMF in 2005 and as a condition of this had to agree to "privatisation or commercialisation of Malawi's remaining state-owned companies". The Blantyre and Lilongwe Water Boards are state-owned, and DFID funds a World Bank agency called the "Public Private Infrastructure Advisory Facility". Despite its name it is being used in Malawi to actively promote a pro-privatisation agenda in the water utility sector, focusing around the Blantyre and Lilongwe Water Boards.

7. DFID budget support funding to PPIAF and to the World Bank paid for initial attempted consensus building towards a privatisation agenda in Malawi, and when civil society opposition proved resilient, DFID funding through the World Bank has been used to pay for a communications strategy and public awareness campaign in an attempt to convince a sceptical civil society and political class as to the merits of privatisation.

8. These efforts at hostile privatisation are of extreme concern to our sister public service union, the Water Employees Trade Union of Malawi (WETUM), together with many elements of Malawian civil society. They believe that privatisation of public water utilities are not in the poor majority's interest.

9. The then Secretary of State for International Development, the Rt Hon Hilary Benn, announced on World Water Day 2007 that DFID would be looking to support Public-Public Partnerships in the water sector in order to support public water utilities as an alternative to privatisation. However, as observed above, UNISON believes that the activities of DFID-funded World Bank agencies are wrong.

10. UNISON would have to question whether the use of DFID funds granted to these institutions is consistent with DFID's stated country objectives for Malawi, or whether in fact these institutions' activities are acting against DFID's objectives.

11. It should be noted that an acknowledgement of the sovereign right of developing country governments to form their own economic policies and development strategies is a commitment of the G8 Gleneagles Communique of 2005 (Point 31). The UK Government was of course a signatory to this agreement. UNISON acknowledges that the UK Government has done more than most G8 governments to honour other commitments made in this pledge document, but this point still needs to be followed through on.

12. Under Part III, Point 17 of DFID's Malawi draft Country Assistance Plan, DFID states that it will work with the World Bank " . . . to ensure implementation of the Bank's good practice principles on conditionality". As this occurs at the very end of the document, UNISON hopes that its positioning does not reflect a lack of priority.

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