

The Effectiveness of DFID's Engagement with the World Bank



Independent
Commission
for Aid Impact

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The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple ‘traffic light’ system to report our judgement on each programme or topic we review.

	Green: The programme meets all or almost all of the criteria for effectiveness and value for money and is performing strongly. Very few or no improvements are needed.
	Green-Amber: The programme meets most of the criteria for effectiveness and value for money and is performing well. Some improvements should be made.
	Amber-Red: The programme meets some of the criteria for effectiveness and value for money but is not performing well. Significant improvements should be made.
	Red: The programme meets few of the criteria for effectiveness and value for money. It is performing poorly. Immediate and major changes need to be made.

Executive Summary

This review considered the effectiveness of DFID's engagement with the World Bank and its influence on the Bank's activities, in order to maximise impact for intended beneficiaries and value for money for the UK taxpayer.

The World Bank comprises the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Over the last five years, DFID has contributed £5.1 billion to IBRD and IDA. Almost 60% went into the main IDA fund, where money is lent to countries based on their needs and priorities. The remainder went into trust funds, where money is granted for specific projects; the UK has been the largest contributor to World Bank trust funds over the last five years. This review concentrates on IDA and trust funds, to which the UK Government makes cash contributions, rather than on IBRD, which raises the funds for its lending by issuing bonds on capital markets.

Overall Assessment: Green-Amber

DFID provides effective oversight of the World Bank, as a shareholder and as a donor. DFID and the UK Delegation to the World Bank engage effectively with the Bank's management to influence priorities, monitor delivery, improve effectiveness and learn from their experience.

We have two main concerns. First, DFID has no central oversight of its portfolio of World Bank trust funds. Second, further progress needs to be made in supporting the Bank to improve the performance and value for money of IDA projects.

Objectives Assessment: Green-Amber

DFID had a clear strategy for negotiating the sixteenth replenishment of IDA funds (IDA16) in 2010 in line with UK Government priorities. DFID contributed positively to the agreement of the IDA16 performance framework for measuring IDA results, although there is scope for further stretch in some of the targets. Through the UK position on the Bank's Executive Board, DFID promotes the alignment of IDA funding with recipient country priorities.

DFID does not have a corporate strategy for the portfolio of trust funds to which it contributes. The portfolio is fragmented across countries and policy teams and, whilst DFID assesses the contribution that each trust fund makes to its overall objectives, these analyses are not brought together into a single overview.

Delivery Assessment: Green-Amber

DFID relies on the effectiveness of World Bank assurance processes and has assessed that these provide adequate control. DFID then uses a risk-based

approach to monitor IDA performance, relying on information from a small sample of countries. Beyond these countries, there is limited central monitoring by DFID of projects at risk.

Impact Assessment: Amber-Red

DFID holds the World Bank accountable for delivering results from IDA and influences the Bank at strategic, policy and operational levels. It relies on various sources of information to evaluate impact.

DFID could do more to help the World Bank address the falling success rate of IBRD/IDA projects since 2006, with 26% of IDA projects completed in the 2008-09 financial year not satisfactorily achieving their development objectives. While this may be influenced by the composition of the project portfolio and external factors, more needs to be done to improve IDA performance. This may require, amongst other things, a stronger Bank presence in-country, especially in fragile and conflict-affected states. This needs to be allied with a stronger focus on value for money.

Learning Assessment: Green

DFID's oversight of the World Bank has evolved in the light of experience and good practice. During the IDA16 negotiations, DFID worked with the Bank and other donors to contribute its expertise in areas such as results measurement and fragile and conflict-affected states.

Recommendations

Recommendation 1: DFID should improve its oversight of the World Bank trust funds it is financing and develop a corporate strategy for allocating resources to trust funds in line with UK Government aid objectives, within 12 months.

Recommendation 2: DFID should work with the World Bank during the remainder of IDA16 and through IDA17 to improve service delivery cost-effectively in fragile and conflict-affected states, including through further decentralisation of staff.

Recommendation 3: DFID should review the principal factors influencing the success of IDA projects. It should then assess how to extend the measures and increase the stretch in targets in the IDA Results Measurement System. DFID should use this work to improve performance and value for money through the IDA17 replenishment negotiations.

1 Introduction

Purpose of this review

- 1.1 The World Bank is important for delivering UK development assistance. The Department for International Development (DFID) contributed £1.6 billion to the Bank in the 2010-11 financial year, which represented a fifth of all UK Official Development Assistance.
- 1.2 The purpose of this review is to assess:
- the effectiveness of DFID's engagement with the World Bank and its influence on the Bank's activities, in order to maximise impact for intended beneficiaries and value for money for the UK taxpayer; and
 - how DFID is ensuring that the reforms agreed as part of the sixteenth replenishment of IDA funds (IDA16) are being implemented.
- 1.3 Our remit with respect to multilateral organisations is to assess UK Government engagement with them or to take a view on the effectiveness of their evaluation functions, while not duplicating those evaluation functions. This review, therefore, is not a direct assessment of the World Bank's own performance.
- 1.4 We had over 40 meetings with DFID, the World Bank and non-governmental organisations (NGOs), supported by a review of internal and external evidence. This is our first review of the relationship between DFID and the World Bank and we carried out the work at the corporate levels of both organisations.

Overview of the World Bank

- 1.5 The World Bank, part of the wider World Bank Group, comprises the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).¹ It is the most important global financial institution for providing concessional lending to low- and middle-income countries. IBRD and IDA have 187 and 171 member countries respectively. The Bank aims to reduce poverty and to improve living standards in the developing world and plays a key role in achieving the Millennium Development Goals (MDGs).

- 1.6 The World Bank has 10,400 employees, 38% of whom are deployed in its 124 country offices. The Bank's administrative budget is US\$1.8 billion. By comparison, DFID has 2,300 employees, of whom almost half work in its 36 country offices.
- 1.7 This section provides an overview of the World Bank and DFID's involvement with it, covering:
- IDA and IBRD lending approaches;
 - the World Bank's disbursements to recipient governments;
 - DFID's contributions to the World Bank;
 - IDA allocation and review processes;
 - World Bank trust funds; and
 - DFID's engagement with the World Bank.
- 1.8 A more detailed description of the World Bank is provided in the Annex.

IDA and IBRD lending approaches

- 1.9 IDA is one of the largest sources of development assistance for the world's poorest countries. It provides investment credits, grants, guarantees and technical assistance to countries below a poverty threshold (currently US\$1,175 Gross National Income per person per year).²
- 1.10 The regular lending terms are highly concessional, with maturities of up to 40 years, a ten-year grace period, no interest rate and a small service charge.
- 1.11 IDA is financed by donors' contributions, credit reflows (i.e. repayments from outstanding credits and income from loan charges) and transfers from IBRD and the International Finance Corporation. The fund is replenished every three years; the most recent replenishment was IDA16, which was finalised in December 2010. 52 donor countries and 12 representatives of recipient countries took part in the negotiations.
- 1.12 In the 2010-11 financial year, 79 countries were eligible to receive IDA assistance.³ This includes

² See the World Bank website:

http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0..contentMDK:21206704~menuPK:83991~pagePK:51236175~piPK:437394~theSitePK:73154_0.html.

³ *IDA at a Glance*, World Bank, November 2011, <http://www.worldbank.org/ida/ida-factsheet.pdf>.

¹ In this report the terms 'World Bank' and 'Bank' refer to IBRD and IDA only.

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16 countries that are eligible for IDA and are sufficiently credit-worthy to borrow from IBRD (so-called blend countries⁴).

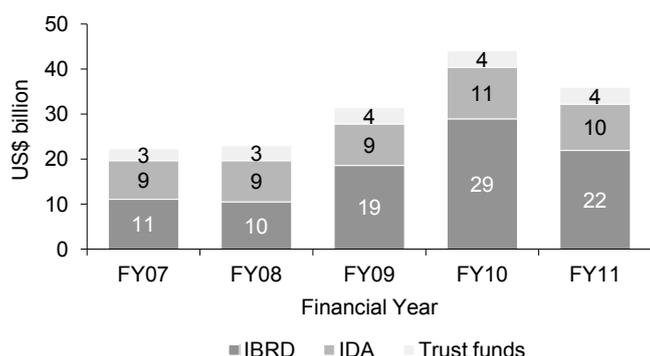
1.13 IBRD provides loans, guarantees and technical assistance to middle-income and credit-worthy poorer countries. The majority of IBRD lending is for long-term investment projects or programmes. IBRD raises most of its funds by issuing bonds on the capital markets and sets interest rates to recover its borrowing costs.

1.14 Over recent years, donors to IBRD and IDA have increased their use of trust funds administered by the World Bank. Almost all financing for trust funds is in the form of grants. DFID uses these to channel bilateral assistance through the World Bank.

World Bank disbursements

1.15 Disbursements by IDA and IBRD, including trust funds managed by them, totalled US\$157 billion in the financial years 2007-11. 58% went through IBRD, 31% through IDA and 11% through trust funds (see Figure 1). There was an increase in lending in 2010, which was a consequence of the global financial crisis.

Figure 1: Total IBRD, IDA and trust fund gross disbursements, financial years 2007-11⁵



Source: World Bank Annual Report 2011⁶ and World Bank Data Warehouse (trust funds)

⁴ Blend countries are: Armenia, Bolivia, Bosnia-Herzegovina, Cape Verde, Dominica, Georgia, Grenada, India, Pakistan, Sri Lanka, St Lucia, St Vincent, Uzbekistan, Vietnam, Zimbabwe and Papua New Guinea.

⁵ Information is provided in this report for World Bank financial years (or fiscal years in Bank terminology) unless otherwise stated. FY in Figure 1 refers to the World Bank financial year (which ends on 30 June).

DFID contributions to the World Bank

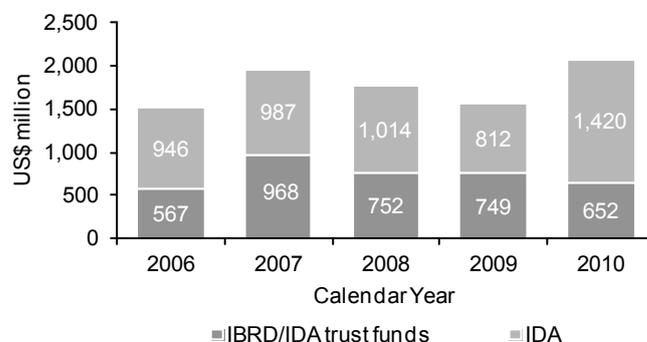
1.16 The World Bank is a key channel for UK multilateral development assistance. DFID's contributions to the World Bank totalled US\$8.87 billion⁷ (approximately £5.12 billion) in the five calendar years 2006-10, of which:

- 58% went to IDA; and
- 42% to trust funds (see Figure 2).

1.17 IBRD raises finance on international capital markets using its AAA rating and asset base. The UK has been the largest contributor to IBRD/IDA trust funds over the last five financial years (2007-11, US\$3.644 billion).

1.18 The UK Government gave the second-largest contribution to the IDA16 replenishment in 2010, committing £2.66 billion (approximately \$4 billion).⁸ This represented 12% of total donor contributions.

Figure 2: DFID contributions to IBRD, IDA and IBRD/IDA trust funds, calendar years 2006-10



Source: OECD DAC and World Bank.

1.19 The UK Government is currently the joint fourth-largest shareholder in IBRD. As a result of the 2010 capital increase agreement, by 2015 the UK will become the joint fifth-largest shareholder, having contributed an additional £95 million (or US\$150 million) of paid-in capital and made a

⁶ The World Bank Annual Report 2011, World Bank, 2011, <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTANNREP/0,menuPK:1397243~pagePK:64168427~piPK:64168435~theSitePK:1397226,00.html>

⁷ The information on DFID contributions by calendar year was provided by OECD DAC for IDA and the World Bank for trust funds in dollars. Our sterling conversion is based on the OECD DAC exchange rate for each year. <http://stats.oecd.org/Index.aspx?DatasetCode=TABLE1>.

⁸ The UK Government makes its commitments to the World Bank in sterling. The Bank carries out its investment lending in US dollars and manages exchange rate risks.

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commitment to provide an additional £1.5 billion (or US\$2.3 billion) if it is called by the Bank to meet IBRD obligations. This capital has never been called. No further capital will be paid in unless IBRD needs to increase its investment lending capacity.

IDA processes

1.20 An IDA replenishment involves a period of negotiation to agree donors' contribution levels and the priorities and reforms that IDA will pursue.

1.21 Once the total funding is agreed, an allocation process based on recipient countries' performance and needs is used to distribute funds. Funding is then allocated to projects and programmes within countries based on a Country Assistance Strategy (CAS), which the World Bank prepares in co-operation with the recipient government.

1.22 18 months after the start date of each IDA financing period, donors and client representatives, together with the World Bank, hold a mid-term review to review progress. The IDA16 Mid-Term Review will take place in November 2012.

World Bank trust funds

1.23 Trust funds have emerged as a significant and rapidly-growing element of global development assistance, alongside bilateral and multilateral programmes. Trust funds are vehicles for funding specific programmes in particular policy areas, regions or countries through a trustee organisation such as the World Bank. They allow donors greater say over specific uses, results are easier to track and donors can pool resources and take advantage of the reach and expertise of the multilateral agency.⁹ At the end of the 2010-11 financial year, IBRD and IDA were responsible for 748 active trust funds. These funds now finance a significant part of the World Bank's activity (representing US\$16.9 billion or 12% of IBRD and IDA disbursements during 2007-11).¹⁰

1.24 There are two main types of IBRD/IDA trust funds:

- recipient-executed trust funds provide financing to projects carried out by recipient agencies, which are mostly governments but which also include NGOs and are normally supervised by the Bank; and

- Bank-executed trust funds are used in support of the Bank's work programme to deliver technical assistance to client countries, to carry out policy and research studies, to share knowledge and to support implementation of projects.¹¹

1.25 Over the financial years 2007-11, DFID's share of IBRD and IDA trust fund disbursements was largely channelled through recipient-executed trust funds (87% of the DFID total); the balance was through Bank-executed trust funds. The Annex contains further information about trust funds.

DFID's engagement with the World Bank

1.26 The World Bank is led by a Board of Governors, which meets twice a year at formal meetings and sets the policy agenda. The UK Governor is the Secretary of State for International Development.

1.27 The World Bank is managed by a Board of 25 Executive Directors, chaired by the President. The Executive Directors are responsible for the conduct of the Bank's general operations under powers delegated by the Board of Governors.

1.28 As the joint fourth-largest shareholder in IBRD, the UK is eligible to appoint an Executive Director. The Executive Director is supported by a small team (the UK Delegation – UKDel).

1.29 Within DFID, the International Financial Institutions Department (IFID) leads the UK's relationship with the World Bank. It monitors and co-ordinates the engagement with the Bank by policy teams and country offices.

1.30 IFID works closely with UKDel. It also works closely with HM Treasury, other government departments, NGOs and the private sector to develop UK responses to World Bank policies, projects and initiatives.

⁹ 2011 DAC Report on Multilateral Aid, OECD, Development Assistance Committee, 2011, <http://www.oecd.org/dataoecd/5/61/49014277.pdf>.

¹⁰ 2011 Trust Fund Report, World Bank, 2011, <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/CFPEXT/0,contentMDK:23086163~pagePK:64060249~piPK:64060294~theSitePK:299948,00.html>.

¹¹ 2010 Trust Fund Annual Report, World Bank, 2010, http://siteresources.worldbank.org/CFPEXT/Resources/299947-1274110249410/7075182-1300896534818/TrustFundsAR2010_Complete.pdf.

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- 1.31 The IDA replenishment process takes place separately from the day-to-day management of the World Bank. Each donor country appoints an IDA Deputy to lead its negotiations. The DFID IDA Deputy for the IDA16 negotiations was the Director of the International Finance Division.
- 1.32 A summary of the main points of engagement between DFID and the World Bank is provided in the Annex (Figure A5).
- 1.33 DFID country offices engage with the World Bank and other stakeholders locally. They consult with governments, NGOs and other donors to provide input into the preparation of CASs and to co-ordinate their bilateral aid programmes.
- 1.34 The commitment of the UK Government to working with the World Bank is based on its Multilateral Aid Review of 2011.¹² This was a detailed assessment of 43 multilateral development and humanitarian institutions against ten factors (which were simplified in the analysis to: contribution to UK development objectives, organisational strengths and the likelihood of positive change); the work was independently peer reviewed. It rated IDA as providing the UK with 'very good value for money'. The Multilateral Aid Review also identified important areas where IDA performance could be improved. These include cost-effectiveness, addressing the needs of girls and women, delivering in fragile and conflict-affected states and working effectively in partnership with recipient countries and donors.

¹² *Multilateral Aid Review: Assessment of the International Development Association*, DFID, February 2011, www.dfid.gov.uk/Documents/publications1/mar/IDA.pdf.

2 Findings

Objectives

Assessment: Green-Amber 

2.1 This section considers DFID's objectives for its relationship with the World Bank. It examines:

- DFID's IDA16 negotiations and how these aligned with UK Government priorities;
- DFID's involvement in allocating IDA resources to recipient countries;
- the Bank's performance framework for assessing progress against its objectives; and
- DFID's approach to World Bank trust funds.

DFID's IDA16 negotiations: UK Government priorities

2.2 DFID's engagement with the World Bank is guided by the UK Government's policy priorities for international development and DFID's strategy for working with the Bank. The IDA16 negotiations began in March 2010 and were informed by priorities which were originally set in 2009 under the Labour Government.¹³ Due to the UK General Election in May 2010, DFID also consulted the opposition parties to reflect their priorities for IDA in the negotiating strategy. In July 2010, the new Coalition Government formalised these priorities and defined six objectives for international development (see Figure 3).

2.3 IDA is a very good fit with UK development assistance. It allocates funds to 24 of the 27 focus countries where DFID concentrates much of its bilateral funding (note that the Bank classifies ten of the focus countries as fragile situations). IDA16 makes a direct contribution to DFID's six objectives for international development. The priority related to wealth creation within IDA is complementary to DFID's co-operation with the International Finance Corporation, another part of the World Bank Group, whose mission is to promote sustainable private sector investment in developing countries.

2.4 IDA is a multilateral fund. The priorities of other donors and recipient countries, as well as Bank-wide issues, need to be taken into account. The negotiations require a pragmatic balancing of priorities to secure commitment to action.

Figure 3: UK Government objectives for international development (July 2010)

- **Value for money:** make British aid more effective in reducing poverty through improved transparency and value for money;
- **Afghanistan, Pakistan, conflict and stabilisation:** improve the join-up and performance of British development policy in conflict countries, with particular focus on Afghanistan and Pakistan;
- **Role of women:** recognise the role of women in development and promote gender equality;
- **Climate change:** drive urgent action to tackle climate change and support adaptation efforts in developing countries;
- **International commitments:** honour the UK's international commitments and support actions to achieve the Millennium Development Goals; and
- **Wealth creation:** make British international development policy more focussed on boosting economic growth and wealth creation.

Source: DFID Structural Reform Plan, July 2010

2.5 The UK Government was one of the major contributors to the IDA16 negotiations. DFID's objectives for these included a combination of policy priorities and objectives for improving the performance of the Bank and IDA. DFID's negotiating strategy included deploying DFID ministers and policy teams, as well as like-minded donors, to achieve these objectives.

2.6 The overall outcomes of the IDA16 negotiations in relation to UK priorities are summarised in Figure 4 on page 7. There was broad consensus amongst donor and recipient countries on the overall priorities for the negotiations but there was disagreement over the detail. In particular, DFID contributed positively to achieving:

- an improved *Results Measurement System* for monitoring IDA progress (feeding into a *Corporate Scorecard* which reports on IBRD and IDA performance); and
- a *Crisis Response Window*, that is, a fund to help low-income countries respond to economic shocks and natural disasters.

¹³ *The UK and the World Bank 2007–2009*, DFID, February 2009, <http://webarchive.nationalarchives.gov.uk/+http://www.dfid.gov.uk/pubs/files/world-bank-2009.pdf>.

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Figure 4: Outcome of IDA16 negotiations compared to UK Government priorities

IDA16 replenishment: UK policy priorities	Outcome of negotiations
Improve the Results Measurement System for the Bank	<ul style="list-style-type: none"> An improved <i>Results Measurement System</i> for IDA16 and a <i>Corporate Scorecard</i> for IBRD and IDA were agreed. They include four tiers of indicators. These allow stakeholders to monitor the Bank's performance.
Introduce a Crisis Response Window	<ul style="list-style-type: none"> A permanent fund (called a <i>Crisis Response Window</i>) was initiated to enable IDA to disburse money quickly to countries experiencing economic shocks and natural disasters.
Improve performance in fragile and conflict-affected countries	<ul style="list-style-type: none"> An agreement was reached to extend the current timeline for providing additional assistance to fragile and conflict-affected states beyond the normal ten years and to supplement the performance-based allocation of funds through IDA. A special theme in IDA16 is fragile states and a new hub for fragile states has been set up in Nairobi (the Centre for Conflict, Security and Development). Focus on improved implementation in fragile and conflict-affected states, including specific targets on decentralisation and on speed of IDA operations in fragile states in the <i>Results Measurement System</i>.
Improve performance on gender equality	<ul style="list-style-type: none"> New targets were agreed for including gender issues in the mainstream of priority sectors. The 2012 World Development Report was on gender equality and development.¹⁴ The Bank will integrate gender issues into every CAS.
Improve commitments on climate	<ul style="list-style-type: none"> The Bank will integrate climate issues into every CAS.
Increase voice of poor countries	<ul style="list-style-type: none"> Four informal working groups, comprising IDA recipient and donor countries, have been set up and are meeting to look at critical issues.

¹⁴ World Development Report 2012: *Gender Equality and Development*, World Bank, 2012, <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTWDRS/EXTWDR2012/0,,menuPK:7778074~pagePK:7778278~piPK:7778320~theSitePK:7778063~contentMDK:22851055,00.html>.

2.7 These successes came about as a result of a well-considered negotiating strategy that was based on evidence and informed by feedback from recipient countries through DFID country offices.

2.8 There were three areas where priorities proposed by DFID during negotiations were not fully achieved:

- A focus on delivery of results:** the four-tier structure of the *Results Measurement System* that allows monitoring of both development results and IDA organisational and operational effectiveness was accepted. DFID was concerned, however, about the level of ambition in some targets and the timeliness of data underpinning some indicators. In addition, the new lending mechanism, Programme for Results (where loan payments to a project are conditional on the project having achieved specified results) was limited by the Executive Board to 5% of IBRD/IDA lending for the first two years. After this, the Board could lift the cap if justified by a review of implementation experience;
- Decentralisation of staff and delegation of authority:** this is an important issue, particularly in delivering effective services in fragile and conflict-affected states. After an initial wave of decentralisation between 2000 and 2010, relatively slow progress is now being made due to differences in views between donors, recipients and the Bank on how it should be managed;¹⁵ and
- Increasing the proportion of disbursements to fragile and conflict-affected states:** supporting fragile and conflict-affected states is a priority for the UK Government 'to support both poverty reduction and Britain's national security'.¹⁶ Under IDA15, only 8% of disbursements were made to fragile and conflict-affected states. In IDA16, fragile and

¹⁵ The share of internationally recruited staff based in country offices increased from 17% in 2000-01 to 30% in 2009-10. See: *Business Modernisation for Better Results*, World Bank, January 2011, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/01/31/000333037_20110131020139/Rendered/PDF/592750BR0SecM21e0only1910BOX358364B.pdf.

¹⁶ *Spending Review 2010*, HM Treasury, October 2010, http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf.

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conflict-affected states are a special theme. The final agreement committed to extend exceptional allocations for eligible post-conflict states and this has been reflected in the first year of IDA16 allocations. Donors agreed that additional proposals on financing could not be made without the *World Development Report* on conflict, security and development (published in April 2011).¹⁷ Donors are expecting to cover this issue at the Mid-Term Review.

2.9 The cost-effectiveness of IDA was identified as an area for improvement during the Multilateral Aid Review,¹⁸ which was being carried out in parallel with the IDA negotiations. DFID lobbied successfully for indicators related to cost and speed of project preparation to be included in the *Results Measurement System* for IDA16. In parallel, the UK has used its position on the Board to urge greater cost-efficiency across the Bank during budget discussions.

2.10 World Bank stakeholders consistently commented to our review team that DFID's approach to the IDA negotiations was active and collaborative. This is partly because DFID takes into account the constraints facing the organisation and aims to help what it regards as a well-performing institution to perform better. In order to make progress, DFID provided technical expertise and proposed solutions (for example, into discussions about the *Results Measurement System* and *Crisis Response Window*). It funded pilots to prove the concept (for the *Crisis Response Window*) and conducted negotiations with stakeholders and like-minded donors. This approach also helped to influence Bank-wide objectives positively; for example, the *Corporate Scorecard* for monitoring World Bank progress as a whole was based on the *IDA Results Measurement System*.

¹⁷ *World Development Report 2011: Conflict, Security, and Development*, World Bank, 2011, http://wdr2011.worldbank.org/sites/default/files/pdfs/WDR2011_Full_Text.pdf.

¹⁸ The Multilateral Aid Review concluded the following in relation to the cost-effectiveness of IDA: a) the Bank has not yet developed an overarching narrative on how IDA achieves value for money; b) there is limited evidence of incentives to generate cost savings in projects; c) administrative costs are high compared to other multilateral development banks; and d) the mechanism for setting staff pay inflates salaries at the World Bank and across multilateral development banks. Source: *Multilateral Aid Review*, DFID, 2011, http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf.

2.11 Three areas where DFID believes that its approach to IDA16 negotiations could have been stronger are: (i) going beyond like-minded donors to develop alliances; (ii) encouraging stronger developing country engagement; and (iii) working in partnership with NGOs where objectives are shared. DFID aims to include addressing these issues in the IDA17 negotiations.

2.12 Overall, there is a clear linkage between UK Government priorities for international development and the objectives of the final agreement for the IDA16 replenishment.

Allocating resources: recipient countries' priorities

2.13 DFID is working with the Bank at country and Board levels to ensure that recipient priorities are addressed within IDA.

2.14 At the country level, DFID works with the World Bank to co-ordinate donor assistance and provide input to the CASs that describe country needs and Bank investment priorities over a three- to five-year period. In some fragile and conflict-affected states, circumstances may demand that a shorter and more flexible Interim Strategy Note is prepared instead of a CAS.

2.15 For each recipient country, the World Bank country management unit leads the preparation of the CAS, working with the recipient government, including officials and ministers. During preparation, the team works with relevant World Bank Group units, development partners (including the International Monetary Fund, regional development banks and bilateral donors), NGOs and other experts, to gather informed views on the issues to be highlighted in the CAS.¹⁹

2.16 The CAS provides the Bank's diagnosis of the country's development situation. This should be based on a country's development strategy and in IDA countries is usually described in a Poverty Reduction Strategy Paper.

2.17 On the basis of this diagnosis, the CAS sets out a results framework that highlights the development outcomes that are expected from Bank support

¹⁹ See the World Bank website: <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:20120746~menuPK:51551~pagePK:41367~piPK:51533~theSitePK:40941,00.html>.

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during the implementation period; milestones based on these form the basis for monitoring progress. The CAS then details a programme of planned Bank Group activities in support of the outcomes.

2.18 There can be tensions between the strategic objectives of the Bank, as set out in the Post Crisis Directions strategy paper²⁰ and a country's own priorities. Issues can arise, for example, over the relative priority given to gender equality or climate change mitigation and adaptation.

2.19 The extent of alignment between the CAS and the recipient country's priorities depends on the strength of local institutions, which will affect the quality of the Poverty Reduction Strategy and how clearly understood are the country's needs and priorities. This is a particular problem in fragile and conflict-affected states where government institutions are often weak.

2.20 Each CAS is endorsed by the Bank's Executive Board and UKDel influences those CASs where the UK has a particular interest. In addition, where DFID has presence on the ground, it works with the Bank and other stakeholders (including the recipient government, other donors and NGOs) to influence the CAS. DFID intends to hold the Bank to account for an improvement in the quality of its IDA CASs, from 44% being assessed as satisfactory at completion in 2010 to a target of 66% being assessed as satisfactory.

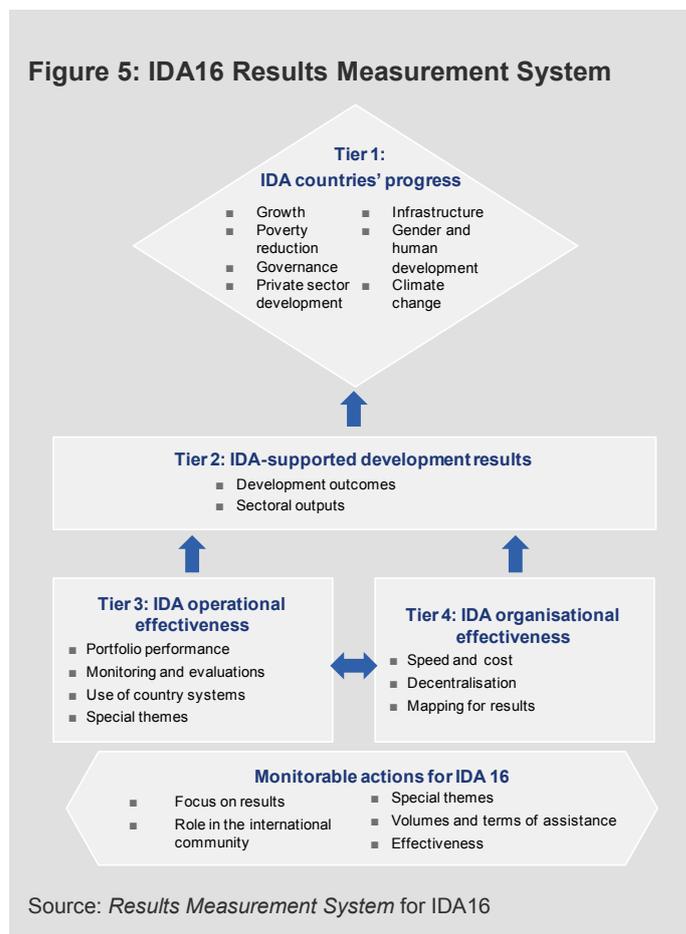
Performance framework for assessing progress

2.21 Figure 5 illustrates the structure of the enhanced *Results Measurement System* adopted in IDA16.

2.22 This approach was extended to the entire World Bank with the introduction of the *Corporate Scorecard* at the end of 2011. In this, the core indicators introduced for measuring IDA results through the *Results Measurement System* were extended to IBRD. This is a significant step in the direction of improving the Bank's transparency; it will report against the *Results Measurement System* and *Corporate Scorecard* every year. This

enables governments, donors and NGOs to monitor the Bank's progress and evaluate the costs and benefits of IDA funding.

Figure 5: IDA16 Results Measurement System



2.23 While this consolidated performance framework is a significant step forward, further development is necessary. The IDA *Results Measurement System* has been evolving since IDA13 and DFID has been working with the Bank to ensure the quality of data, as well as seeking to make the targets stretching. There are still unresolved issues related to data quality and the level of ambition in the targets. For example:

- a number of Tier 1 indicators of country progress rely on country systems where there is limited opportunity to update them any faster. In one case, data is from 2000;
- some of the data for Tier 3 indicators on IDA operational effectiveness are over three years old where they are based on a Paris

²⁰ *New World, New World Bank Group: (I) Post-Crisis Direction*, April 2010, World Bank: [http://siteresources.worldbank.org/DEVCOMINT/Documentation/22553954/DC2010-0003\(E\)PostCrisis.pdf](http://siteresources.worldbank.org/DEVCOMINT/Documentation/22553954/DC2010-0003(E)PostCrisis.pdf).

2 Findings

Declaration survey which is outside Bank control; and

- IDA performance targets for achievement of development outcomes (Tier 2) are set at levels which could potentially have more stretching ambition, for example to reduce the proportion of CASs and IDA operations which are not satisfactorily achieving their outcomes.

2.24 These issues should be resolved as a matter of urgency.

2.25 The first report by the World Bank on the IDA16 *Results Measurement System* will be in June 2012. Following this, it will be crucial for DFID to ensure that the system is as effective as possible at improving performance and value for money. DFID should carry out a full assessment of the *Results Measurement System*, involving NGOs, to prepare for the IDA16 Mid-Term Review in November 2012.

DFID's approach to trust funds

2.26 The UK Government has been the largest contributor to World Bank trust funds during the last five financial years (2007-11). It contributed US\$3.64 billion over this period. The next largest contributor over the five years was the European Commission (US\$2.1 billion), followed by the Netherlands and Canada.²¹ The UK contribution to trust funds is very fragmented; of the 189 Bank trust funds which were active at the end of the financial year 2011 and to which DFID was contributing, 25 funds had received 77% of all DFID paid-in contributions whilst 111 had received less than US\$5 million each. The Afghanistan Reconstruction Trust Fund, which was the largest, had received 16% of all DFID paid-in contributions.

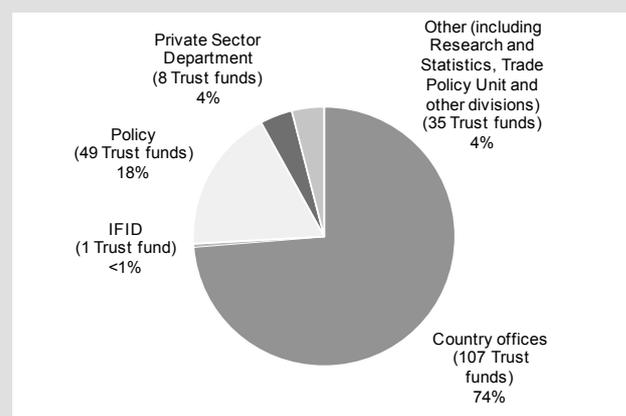
2.27 Trust funds can help to address limitations and gaps in bilateral and multilateral aid programmes. For example, they can provide:

- additional financing for specific countries, including fragile and conflict-affected states and those unable to borrow from IDA or IBRD;

- support for individual countries' development efforts, compensating for the limited availability of funding through other mechanisms; and
- co-ordination of funds from several donors into a single programme.

2.28 A number of divisions within DFID oversee its portfolio of World Bank trust funds. Three-quarters of trust funds are set up and overseen by DFID country offices (see Figure 6). Trust funds are a delivery mechanism for the bilateral aid programme and a way for DFID to combine its funds with those of other donors. Whilst approval of new trust funds is subject to the standard DFID business case procedure, including formal limits of delegated authority, there is no one person within DFID responsible for overseeing the department's portfolio of trust funds and ensuring strategic coherence. The detailed analysis of contributions to trust funds used during this review was prepared for DFID by the World Bank.

Figure 6: Management of World Bank trust funds by DFID (% cash contribution and number of trust funds, financial years 2005-10)



Source: DFID trust fund database

2.29 During 2010, the World Bank Group's Independent Evaluation Group (IEG) conducted a review of the trust fund portfolio managed by the World Bank. The report agreed that trust funds fill critical gaps in the provision of aid but was very critical of the Bank's approach. IEG concluded that 'substantial management changes will be needed to increase the effectiveness and efficiency of trust funds as a

²¹ 2011 *Trust Fund Report*, World Bank, 2011, http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/CFPEXT/0_contentMDK:23086163~pagePK:64060249~piPK:64060294~theSitePK:299948_00.html. Also an analysis of trust funds prepared for DFID by the World Bank (November 2011).

2 Findings

channel of development assistance' and that the Bank 'should develop a more strategic approach to accepting and managing these funds'.²² The IEG review and our interviews with DFID provide evidence that accountabilities for overseeing trust fund portfolios within both the World Bank and DFID are weaker than for IBRD and IDA-financed activities. Figure 7 summarises IEG's findings on the Bank's management of trust funds and our findings on DFID's oversight of trust funds.

Figure 7: Issues with the governance of trust funds by the World Bank and DFID

World Bank approach (IEG findings)	DFID approach (our findings)
<ul style="list-style-type: none"> ■ The World Bank does not have a clear strategy for trust funds. ■ Trust-funded activities are not systematically incorporated into CASs. ■ Most trust funds are not presented for Board approval. ■ Interests of donors, trustees and beneficiaries can diverge (for example, over allocation decisions). ■ There are weaknesses in country ownership, donor co-ordination and performance management. 	<ul style="list-style-type: none"> ■ DFID does not have a corporate strategy for trust funds. ■ Trust funds are not always part of Country Operational Plans. ■ The quality of planning and reporting varies. ■ There is no single individual responsible for overseeing the totality of trust funds within DFID. ■ Country directors have the authority to approve trust funds of up to £20 million. ■ There is no formal requirement for DFID to be consulted on trust funds of under £40 million.

Sources: IEG Report (2011), ICAI interviews with DFID

2.30 At this stage, there is little evidence of significant progress by DFID following IEG's recommendations (which were reported to the Executive Board in November 2010). At the time of our review, the World Bank and DFID had started work on reforming trust funds. They had completed an analysis of the UK trust fund portfolio and held meetings to discuss the results and next steps. The aims of the approach to improve oversight of

trust funds are clear and high-level actions have been agreed but we believe that a detailed DFID-wide plan is now required to manage this complex change, which identifies the risks and ways to mitigate them.

2.31 Our conclusion is that DFID allocates a significant amount of resources to trust funds on a fragmented basis with no overarching strategy and limited oversight at the corporate level. This is a significant concern.

Delivery

Assessment: Green-Amber 

2.32 This section considers how DFID engages with the Bank to manage delivery of the IDA programme. It examines how DFID:

- oversees World Bank project design;
- gains assurance on World Bank processes;
- monitors IDA performance;
- uses independent sources to help assess the World Bank and to provide further assurance; and
- gains assurance that recipient countries are properly engaged with the Bank.

DFID's oversight of project design

2.33 Project design is carried out within the World Bank using a very detailed and formal process, starting at country level and ending with each project application being reviewed and endorsed by the Executive Board.²³

2.34 DFID has different degrees of control according to the funding source of the project. It has little control of projects which are set up through the IDA fund; oversight in these cases is at arm's length, through the UK's position on the Board. DFID has greater influence, control and oversight of projects which are set up as single- or multi-donor trust funds where it is a financial contributor.

2.35 When CASs and project applications are reviewed by the Executive Board, UKDel concentrates its attention on those projects where there is a strong UK interest or concern. It raises issues as

²² *Trust Fund Support for Development, An Evaluation of the World Bank's Trust Fund Portfolio*, Independent Evaluation Group, World Bank Group, 2011, http://ieg.worldbankgroup.org/content/dam/ieg/tf_eval.pdf.

²³ A few project applications are given a waiver in exceptional circumstances.

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necessary and seeks information on value for money where there are specific concerns.

- 2.36 A common criticism of the World Bank is that some of its processes and controls are over-rigorous and delay implementation.²⁴ There is evidence that the procurement of project resources can be slow. The Bank is starting a review of procurement processes in February 2012 that will take two years to complete. DFID is not involved in the governance of the project, other than through the Executive Board, but will be consulted as part of the review. UKDel will try to influence the work as part of its ongoing activities.

DFID assurance of World Bank processes

- 2.37 DFID believes that multilateral organisations such as the World Bank complement its bilateral aid programmes in four main ways:²⁵

- they enable donors to support development in a wider range of countries;
- their scale should enable them to deliver technical advice, grants and loans at a lower cost;
- their leadership and co-ordination function should reduce administration costs for both donors and recipient countries; and
- their role in brokering international agreements and monitoring adherence to them should raise standards across the international system.

- 2.38 DFID concluded that the World Bank is fit for purpose through the Multilateral Aid Review (which was described as 'transparent, defensible and actionable' by external reviewers²⁶). It has also relied on reviews by the Bank itself, including reviews of the World Bank Group's five oversight and accountability units²⁷ and IDA's internal controls.²⁸

- 2.39 DFID's Internal Audit Department (IAD) uses the corporate risk register to inform its work programme. This is reviewed quarterly and is supported by other evidence about potential risks across DFID, including interviews with senior management and IAD's risk model. IAD carried out a review of IFID's governance of multilateral institutions, including the World Bank, in 2009. Bank projects, where DFID is a co-financer, are also reviewed as part of IAD country office visits. The World Bank is viewed by DFID as low risk.

- 2.40 Based on this evidence, the Permanent Secretary of DFID, as DFID's Accounting Officer, provides an annual governance statement that DFID's internal controls are sound and are safeguarding public funds. This includes working with partners such as the World Bank and is covered by the Statement on Internal Control in DFID's *Annual Report and Accounts*.²⁹ The Statement on Internal Control is informed by, amongst other things, annual assurance statements by DFID directors; this is their guarantee of the robustness of the systems and processes they are using to manage, monitor and report against corporate requirements.

- 2.41 DFID relies on a number of World Bank assurance processes to form its own view on the Bank's ability to deliver results, including:

- the Executive Board receives a Quarterly Business and Risk Review as well as CAS progress reports;
- IDA Deputies receive annual reports of progress against the IDA16 *Results Measurement System*;
- the Bank publishes an annual update to the *Corporate Scorecard* which is supported by the World Bank for Results report;

²⁴ MOPAN Common Approach 2009: World Bank, Multilateral Organisation Performance Assessment Network, February 2010, http://www.mopanonline.org/upload/documents/World_Bank_Final_February_19_issued.pdf.

²⁵ *Multilateral Aid Review*, DFID, March 2011, page 2, http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf.

²⁶ *Multilateral Aid Review*, DFID, March 2011, page 161, http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf.

²⁷ The five oversight and accountability units that report to the Bank Group Boards or directly to the President are the Independent Evaluation Group, the

Inspection Panel, Institutional Integrity, Internal Audit and the Compliance Adviser/Ombudsman.

²⁸ *IDA Internal Controls: Evaluation of Management's Remediation Programme*, Independent Evaluation Group, World Bank, 2010, [http://inweb90.worldbank.org/oed/oeddoelib.nsf/DocUNIDViewForJavaSearch/16AA0537A6C4D95A85257D600595C99/\\$file/IDAControls2.pdf](http://inweb90.worldbank.org/oed/oeddoelib.nsf/DocUNIDViewForJavaSearch/16AA0537A6C4D95A85257D600595C99/$file/IDAControls2.pdf). The key purpose of IDA's internal controls system is to assure its stakeholders that IDA complies with its articles and policies and that the funds it provides for development purposes are used as intended and show measurable results.

²⁹ *DFID Annual Report and Accounts 2010-11*, Volume II – Accounts, 2011, <http://www.dfid.gov.uk/Documents/publications1/departamental-report/2011/Annual-report-2011-volII.pdf>.

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- the IDA Mid-Term Review provides an opportunity for the IDA Deputy formally to review and discuss progress against IDA objectives with the Bank and other donors;
- the Bank's Operations Policy and Country Services unit puts in the public domain, through a web portal, information on the preparation and execution of all its projects;
- an Operational Risk Assessment Framework is used by DFID to provide assurance that the Bank is managing its risks systematically and holistically. The Bank's Chief Risk Officer provides an annual report on this framework;
- World Bank Internal Audit reports are provided to the Audit Committee and the Executive Board. These include joint audit reviews with DFID (such as in India in 2006 and in Kenya in 2010); and
- the Bank's Institutional Integrity team investigates allegations of fraud and corruption in Bank-financed projects and Bank Group operations. DFID is involved in joint investigations where appropriate (for example, of the Kenya Education Sector Support Programme in 2010).

2.42 In addition to this monitoring, IEG validates CAS Completion Reviews prepared by management. It also carries out regular post-implementation evaluations, which include detailed sector, country and thematic reviews. These are reported to the Bank's Committee on Development Effectiveness and, in some cases, to the Executive Board. IEG evaluations are used by the Bank to inform future delivery.

DFID's approach to monitoring IDA performance

2.43 The IFID team in DFID has arms-length oversight of IDA funding at the programme and project levels, primarily through the UK's position on the Board.

2.44 In order to form its own view on IDA performance and inform negotiations with the Bank, DFID uses a risk-based approach to monitor project delivery. The IFID team has set up a quarterly country monitoring process using a sample of nine countries. This sample is representative of regional

and thematic priorities for DFID and IDA. Country offices provide input to the monitoring through quarterly video-conferences and six-monthly written feedback.

2.45 As part of the Multilateral Aid Review process, DFID has developed a monitoring grid that shares responsibility across countries for monitoring the performance of 39 multilateral agencies in 27 focus countries (of which 24 have IDA projects). During the Multilateral Aid Review of IDA, DFID conducted joint visits with other donors to three countries where there are no DFID country offices, in order to review progress on the ground.

2.46 Monitoring of IDA projects implemented in countries outside this sample of nine countries relies on escalation of issues and risks by country offices, either via IFID or directly with UKDel. At the time of this review, the IDA portfolio includes 118 'projects-at-risk', which account for 13% of the total portfolio.³⁰ 47 of these projects are in DFID focus countries and six are co-funded by DFID from its bilateral aid programme.

2.47 The IFID team has limited capacity to review the list of problem projects and to co-ordinate with the Bank (via UKDel) and DFID country offices to monitor resolution of these issues. The IFID team does not maintain a risk log where all issues raised in relation to World Bank projects are recorded and progress is monitored.

2.48 The IFID team should consider a more co-ordinated and systematic approach to risk management for the IDA portfolio to supplement its system of country monitoring. DFID could make greater use of the project data and reports (such as Project Implementation Status and Results reports) that are available through the Bank's Operations Policy and Country Services unit.

2.49 IFID reporting of IDA progress to senior management within DFID includes:

- six-monthly reports to the IDA Deputy on IDA's progress based on country monitoring;

³⁰ Projects-at-Risk are defined by the Bank as projects at risk of not meeting their development objectives, including actual problem projects identified by the task managers and potential problem projects identified by the Quality Assurance Group based on leading indicators of future problems.

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- annual updates to the IDA 'logical framework' (which sets out how DFID intends to achieve its objectives for IDA); and
- updates by the IDA Deputy of the progress being made with the Mid-Term Review of IDA, which takes place 18 months after a replenishment but involves significant preparation. The IDA16 Mid-Term Review is scheduled for November 2012.

2.50 Based on interviews with DFID country offices, we found that they have limited visibility of projects implemented by the Bank, unless DFID is co-funding or implementing them jointly with the Bank and other donors through trust funds. There is a risk for DFID that country offices focus their attention on those projects which they are co-financing from the bilateral aid programme, rather than on IDA projects where financing is from the overall IDA fund to which DFID contributes.

DFID's use of independent evidence

2.51 DFID uses a range of independent sources to assess the World Bank and IDA and to provide further assurance of their effectiveness. An important review of the World Bank was published in 2010 by the Multilateral Organisation Performance Assessment Network (MOPAN), a network of 15 major donors including the UK. This confirmed stakeholders' confidence in the Bank's fiduciary systems, including internal audit, risk management and policies to address corruption. It also recognised the strength of the Bank's independent evaluation procedures and its use of performance information. The main areas for improvement highlighted were allowing for greater flexibility of the Bank's administrative procedures and greater use of country systems (for example, financial reporting and procurement).³¹

2.52 The *Aid Transparency Index 2011*, from Publish What You Fund, scored IDA as the most transparent of 58 donors.³² This is a considerable achievement on the Bank's part.

³¹ MOPAN Common Approach 2009: World Bank, Multilateral Organisation Performance Assessment Network, February 2010, http://www.mopanonline.org/upload/documents/World_Bank_Final_February_19_issued.pdf.

³² *Aid Transparency Index 2011*, Publish What You Fund, 2011, <http://www.publishwhatyoufund.org/resources/index/2011-index/>.

Engagement of recipient countries

2.53 Ownership by recipient governments is key to making investment loans, to ensure that lending goes to projects that meet intended beneficiaries' needs. The World Bank has several processes for achieving this:

- during CAS preparation, recipient governments are expected to consult with NGOs. Citizens are consulted during project design when environmental and community safeguards are assessed;
- the IDA16 replenishment involved representatives of 52 donors and 12 recipients. Informal working groups have since been established to consult on selected development issues (covering development results, fragile and conflict-affected countries, inclusive growth and IDA's long-term financial sustainability); and
- the Executive Board discusses each CAS and all project applications. Recipient countries can influence these discussions through their representative director.

2.54 In addition, DFID consults NGOs through policy teams, country teams, IFID and UKDel. Consultation topics include specific policy issues, IDA replenishment issues and general matters concerning the World Bank.

2.55 NGOs and representatives of DFID commented to us that a more formal role to ensure engagement of recipient governments during IDA negotiations would be appropriate. Informal working groups being piloted during the IDA16 period and IDA17 negotiations are an important step in this direction.

Impact

Assessment: Amber-Red 

2.56 This section examines:

- DFID's influence on the World Bank;
- the Bank's approach to impact evaluation; and
- impact challenges faced by IDA.

DFID's influence on the World Bank

2.57 It is DFID's responsibility, on behalf of the UK taxpayer, to hold the World Bank accountable for

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delivering results from IDA funding for recipient countries and intended beneficiaries. It is also responsible for negotiating the best deal for the UK in the IDA replenishments, balancing UK development assistance priorities with the needs of recipient governments. It then manages the relationship at arm's length and monitors performance through the Executive Board.

2.58 DFID exerts influence on the World Bank at strategic, policy and operational levels:

- **Strategic:** there is regular engagement through the Spring and Annual Meetings of the Board of Governors and through the IDA replenishment process (which involves four meetings every three years and the Mid-Term Review). The IDA16 Mid-Term Review in November 2012 is an opportunity to influence the remainder of the IDA16 period and the agenda for IDA17. There are also one-off engagements, for example regarding the capital increase and reform of voting shares in 2010 and the next review of voting shares in 2015;
- **Policy:** there is regular engagement through the Executive Board (which meets twice a week) and its five committees, which are all attended by UK representatives. The Board reviews and discusses all CASs and project applications. There is also extensive networking between the member delegations and between UKDel and World Bank staff. DFID staff in policy teams also deal directly with their counterparts in the Bank and the role of IFID is to co-ordinate these interactions; and
- **Operational:** in the 36 countries where DFID has staff, they interact with local World Bank staff regularly. They are involved in local project steering arrangements where the UK is co-financing a trust fund project from bilateral funding. They are also consulted by the World Bank in relation to the relevant CAS.

2.59 Influence is difficult to measure objectively. Senior executives in World Bank headquarters, however, were extremely positive in their assessment of the contribution of UKDel members to discussions and

described them as 'active and constructive'.³³ The members of UKDel, unlike most delegations, typically have backgrounds in development and can, therefore, contribute more fully to discussions about aid policy and effectiveness.

2.60 The UK has taken a lead in shaping priorities for World Bank reform and IDA. Within DFID, IFID co-ordinates engagement with the Bank and leads on IDA replenishments. The UK Director and Delegation address UK priorities but have a wider responsibility to the World Bank.³⁴ They build bilateral relationships with other delegations and Bank staff to help bring about change. The UK was active in promoting and following through on the Modernisation Programme agreed in 2010. The programme aims to create a more efficient, effective and accountable World Bank Group by modernising services, reorganising the Bank and improving key processes, infrastructure (such as IT) and incentives. DFID worked through the Executive Board to build support for the new results-based lending approach, against opposition from a number of countries.

Impact evaluation

2.61 At the end of the IDA16 negotiations, DFID presented a business case to its government ministers quantifying the expected impact of UK funding in the light of the UK share of donor contributions. The business case described the development results that will be achieved and the reforms that will be implemented by the Bank during the IDA16 period. The business case provided an options appraisal, considering other multilateral organisations and funds, as well as the bilateral aid programme; it recommended a moderate increase in the financial contribution compared to IDA15 and ongoing engagement to influence reform. This business case will be used as the basis for the Mid-Term Review.³⁵

2.62 DFID relies on IEG to evaluate the impact of the World Bank's development assistance spending.

³³ The ICAI review team held 20 meetings with World Bank senior staff in Washington, DC.

³⁴ The staff of the UK Delegation are seconded from the UK civil service but are employed by the World Bank.

³⁵ See: *Business Case for IDA16 Replenishment, Intervention Summary*, DFID, 2011, <http://projects.dfid.gov.uk/iati/Document/3090862>.

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IEG's goals are to provide an objective assessment of the Bank Group's work and to disseminate lessons learned. Its approach to evaluation is based on the following criteria:

- **Relevance:** the extent to which the objectives and design of the programme are consistent with (a) current global/regional challenges and concerns in a particular development sector; and (b) the needs and priorities of recipient countries and groups;
- **Efficacy:** the extent to which the programme has achieved or is expected to achieve its objectives, taking into account their relative importance;
- **Efficiency:** the extent to which the programme has converted or is expected to convert its resources (such as funds, expertise and time) into results in order to achieve the maximum possible outputs, outcomes and impacts with the minimum possible resources; and
- **Cost-effectiveness:** the extent to which the programme has achieved or is expected to achieve its results at a lower cost compared with alternatives.

2.63 IEG evaluations often involve seeking evidence from recipient governments and beneficiaries. For example, the methodology for the evaluation of the World Bank country-level engagement on governance and anti-corruption during 2008-10³⁶ was very extensive. It involved field-based assessments of the results and impact of the Bank's work through 50 country programmes and 200 lending and trust fund operations. Consultations were held with groups of donors and NGOs, supported by econometric analysis and interviews with Bank staff.

2.64 IEG reports to the Board through the Committee on Development Effectiveness. IEG's three-year rolling work programme is approved by this Board committee, which the UK attends. IEG validates all management self-assessments of performance carried out by World Bank staff, including project completion reports and CAS completion reports.

³⁶ World Bank Country-level Engagement on Governance and Anticorruption: An Evaluation of the 2007 Strategy and Implementation Plan, IEG, World Bank Group, 2011, http://ieg.worldbankgroup.org/content/dam/ieg/qac/qac_eval.pdf.

IEG also evaluates 20% of the IBRD/IDA completed projects every year, selecting projects to reflect risks and themes. In addition, IEG carries out major reviews of the long-term impact of country strategies (for example in 2011, Afghanistan and Liberia) and of themes (for example in 2011, co-ordination between donors in low-income countries). Examples of major reviews include: gender, trust funds, IDA controls, oversight organisations, health in Africa and the response to the global financial crisis.

2.65 IEG is a member of the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee Network on Development Evaluation (currently chaired by DFID). The network's purpose is to increase the effectiveness of international development programmes by supporting robust, informed and independent evaluation. The network jointly developed a set of quality standards.³⁷

2.66 As part of the Multilateral Aid Review, DFID assessed the effectiveness of the evaluation functions of multilateral development agencies. It recognised that the independence of IEG and the quality of its work are widely acknowledged to be strong. The review also referred to a recent MOPAN assessment that rated the independence of IEG as 'very strong'. The main area for improvement was to involve key clients and beneficiaries more in monitoring and evaluation.³⁸ We support this shift in approach and encourage the UK Executive Director to continue to promote this requirement through the Committee on Development Effectiveness in future discussions about IEG's work programme and results.

2.67 The Annex provides an assessment by DFID of the independence of IEG against the criteria for a 'supreme audit institution' developed by the International Organisation for Supreme Audit Institutions. This confirms that IEG is an independent unit within the World Bank Group, whose head is appointed by the Boards of the

³⁷ Quality Standards for Development Evaluation, OECD Development Assistance Committee, 2010, <http://www.oecd.org/dataoecd/55/0/44798177.pdf>.

³⁸ MOPAN Common Approach 2009: World Bank, Multilateral Organisation Performance Assessment Network, February 2010, page 44, http://www.mopanonline.org/upload/documents/World_Bank_Final_February_19_issued.pdf.

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Group (and can only be removed by them). The managements of the Group institutions cannot alter study findings or prevent their release. Agreed actions are followed up by IEG and are reported to the Boards. IEG reports are often critical of Bank management.

2.68 Bank management has committed to strengthen its impact evaluation under IDA16 to provide better evidence for judging performance. The Bank is also strengthening its accountability by communicating information about its results and in 2011 published a report about its results in support of its first *Corporate Scorecard*.³⁹

2.69 Based on this evidence, we are satisfied that IEG is sufficiently independent for assessing the results of the World Bank Group's work and for identifying and disseminating lessons learned from experience.

Impact challenges

2.70 The nature of development assistance within a multilateral context creates certain challenges for monitoring the impact of IDA. DFID has been able to influence effectively the Bank's priorities at the policy level but is yet to address a number of issues related to monitoring project success rates, providing assistance to fragile and conflict-affected states and addressing the cost-effectiveness of IDA.

Project success rates

2.71 The incidence of projects performing below expectation is shown in the World Bank's *Corporate Scorecard*. 74% of IDA projects which completed in the 2008-09 financial year achieved their development objectives. The definition used for achievement of objectives includes projects rated as 'moderately satisfactory' so it potentially underestimates the incidence of under-achievement. IDA and IBRD projects are both slightly below target (75% for IDA and 80% for IBRD).⁴⁰

³⁹ World Bank for Results 2011, World Bank, 2011, <http://siteresources.worldbank.org/PROJECTS/Resources/40940-1244163232994/6180403-1316547116912/WB4R.pdf>.

⁴⁰ World Bank Corporate Scorecard 2011, World Bank, 2011, [http://siteresources.worldbank.org/DEVCOMINT/Documentation/23003988/DC2001-0014\(E\)Scorecard.pdf](http://siteresources.worldbank.org/DEVCOMINT/Documentation/23003988/DC2001-0014(E)Scorecard.pdf).

2.72 Across IDA and IBRD, IEG has reported that 'project ratings rose between 1987 and 2006, but they have declined moderately since 2006'.⁴¹ The IDA/IBRD project success rate peaked at 83% in the 2005-06 financial year, falling to 76% in 2008-09. IEG identified the main contributor to this decline as poorer performance in certain sectors, particularly human development (for example in education, health, nutrition, population and basic infrastructure). IEG identified common contributors to unsuccessful projects as over-ambitious designs, weak results frameworks, weak implementation capacity, lack of government ownership and changes in government during implementation. Increasing activity in fragile and conflict-affected states will impact success rates.

2.73 The *Corporate Scorecard* shows that 59% of CASs are satisfactory at completion. CAS country development outcomes cover broad economic and social issues to which World Bank projects can only make a contribution, so satisfactory CAS outcomes are harder to achieve. The Bank has a target to increase the proportion of CASs achieving a satisfactory rating at completion to 70%.⁴²

2.74 This suggests that there is considerable scope for improvement in delivery of World Bank projects, although we recognise that the underlying issues will take time to address. From the UK point of view, a significant proportion of DFID's contribution to the World Bank is going to projects that are less than moderately satisfactory in achieving their development outcomes. This suggests that there is more that DFID should do to help delivery of results, especially in the light of the scale of UK contributions to IDA and trust funds.

Fragile and conflict-affected states and decentralisation

2.75 Only 20% of fragile and conflict-affected states are on track to meet the 2015 MDG targets.⁴³ The UK

⁴¹ IEG Annual Report 2011: Results and Performance of the World Bank Group, Volume I: Main Report, Independent Evaluation Group, World Bank Group, 2011, http://ieg.worldbank.org/content/dam/ieg/rap2011/rap2011_vol1.pdf.

⁴² The rating is based on IEG's evaluation of each CAS Completion Report, which looks at the extent to which CAS outcomes have been achieved, the Bank's contribution to achieving these and learning for future CASs. See *World Bank Corporate Scorecard 2011*, World Bank, 2011, [http://siteresources.worldbank.org/DEVCOMINT/Documentation/23003988/DC2001-0014\(E\)Scorecard.pdf](http://siteresources.worldbank.org/DEVCOMINT/Documentation/23003988/DC2001-0014(E)Scorecard.pdf).

⁴³ *The World Bank Annual Report 2011*, World Bank, 2011, <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTANNREP/0,menuPK:1397243~pagePK:64168427~piPK:64168435~theSitePK:1397226,00.html>

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Government has committed to spend 30% of its Official Development Assistance (ODA) in fragile and conflict-affected states by March 2015 and supports these states through trust funds and the bilateral aid programme.

- 2.76 We estimate that about 17% of IDA and trust fund disbursements are allocated to fragile and conflict-affected states. Recent data is hard to obtain for this category of Bank lending but IDA lending is comparatively low and trust fund grants are higher. For example, under IDA15, 8% of disbursements went to fragile and conflict-affected states. In the 2010-11 financial year, 43% of recipient-executed trust fund disbursements went to fragile and conflict-affected states (of which US\$560 million or 41% went to Afghanistan).
- 2.77 Given the large proportion of UK ODA that is channelled through IDA, the UK Government may decide to negotiate for an increased proportion of IDA funding to be allocated to such states in future to contribute to achieving its target. Increasing lending to fragile and conflict-affected states is a complex issue for the Bank because such lending is higher risk, for example in relation to fiduciary control.
- 2.78 Effective service delivery in fragile and conflict-affected states is helped by having people on the ground to engage with local institutions. Recent information shows that 38% of the Bank's employees are in country offices.⁴⁴ The level of decentralisation varies by region, being higher in Asia and lower in Africa. A new hub for fragile and conflict-affected states has been set up in Nairobi to provide experts in procurement, financial management, monitoring and evaluation and environmental and social safeguards who can help develop country strategies and provide support on implementation issues; this hub is an important step forward.
- 2.79 The Bank believes that delivery costs will be higher in a decentralised model. The potential impact of lower effectiveness and missed opportunities from not being locally-based, however, also need to be

taken into account. DFID should continue to apply pressure on the World Bank to make progress on this issue. Pressure can be exerted through the Board of Governors, the Executive Board, the IDA16 Mid-Term Review and the subsequent IDA17 replenishment negotiations.

Cost-effectiveness of IDA

- 2.80 The Multilateral Aid Review identified the cost-effectiveness of IDA as an issue.
- 2.81 For example, the IDA16 *Results Measurement System* shows that there is a significant gap to bridge in relation to IDA project preparation costs. Currently, project preparation takes 15 months on average, from concept note to approval for lending, compared to the Bank's target of 12 months. Savings could be achieved across the current IDA portfolio of 880 projects if the target can be achieved.
- 2.82 DFID finds it difficult to influence programme costs. Once an application reaches the Board, it is too late in the process to challenge costs without imposing significant delays. Influence can be exerted on programme costs at the design stage but DFID is not involved in programme design at the country level, unless it is co-financing from its bilateral programme.
- 2.83 Continuing pressure should also be applied to the Board, through the Budget Committee, to retain an administrative budget that is flat in real terms. This should include closer integration of Bank-executed trust funds into the Bank's resource management and budgeting (spending on such trust funds grew by 55% between 2006 and 2010, representing 18% of total expenditure by the Bank⁴⁵). DFID should scrutinise carefully all proposals for UK funding of Bank-executed trust funds to ensure that they are meeting its own priorities.

⁴⁴ *The World Bank Annual Report 2011*, World Bank, 2011, <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTANNREP/EXTANNREP2011/0,,menuPK:8070643~pagePK:64168427~piPK:64168435~theSitePK:8070617,00.html>.

⁴⁵ *2010 Trust Fund Annual Report*, World Bank, 2011, page 19, <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/CFPEXT/0,,contentMDK:22867245~pagePK:64060249~piPK:64060294~theSitePK:299948,00.html>.

2 Findings

Learning

Assessment: Green 

2.84 This section considers how DFID has learned from its experience of working with the World Bank. It considers:

- the use of learning by DFID to inform its engagement with the Bank;
- the use of learning by DFID to influence further reform discussions amongst donors and within the Bank; and
- progress with implementing the recent International Development Committee (IDC) recommendations.

Using learning to influence World Bank engagement

2.85 DFID's approach to oversight of the World Bank has evolved in the light of experience. For example, it carried out a self-evaluation of its approach to the IDA16 negotiations. This review identified lessons for future replenishment negotiations. The most important of these were: to go beyond like-minded donors in building alliances; to engage NGOs more fully in influencing change where there is agreement on objectives; to be more proactive in engaging with the Bank; and to build links across DFID with staff managing other multilateral replenishments and with ministerial private offices.

2.86 The Multilateral Aid Review is another example of learning from experience through feedback from recipient countries, NGOs and self-assessment by the Bank. DFID also takes part in international forums and contributes its technical expertise to develop good practice in aid effectiveness, including through membership of MOPAN (which concentrates on performance assessment) and the OECD's Development Assistance Committee (which promotes sustainable development).

2.87 DFID learns from its country monitoring and uses this feedback to shape the agenda with the World Bank. For example, DFID works closely with the World Bank team on fragile and conflict-affected states and provided feedback from its country monitoring to inform establishment of the regional hub in Nairobi. As part of its engagement with the Bank, particularly on the IDA negotiations, DFID

should, in our view, share its plans with NGOs at an earlier stage.

Using learning to influence World Bank priorities

2.88 Substantial change takes time to achieve in the World Bank, particularly where issues are controversial or affect the whole Bank. A number of the issues raised in the IDA16 negotiations are continuations from the IDA15 replenishment – including progress in fragile and conflict-affected states, decentralisation, a permanent *Crisis Response Window*, results measurement and gender equality. For example, DFID's annual progress review of IDA15 in 2009 identified a lack of clear output and outcome measures in the *IDA Results Measurement System*. It also identified the absence of strong client participation and voice in discussions around IDA priority setting.

2.89 These were carried forward into IDA16. In its strategy for IDA16, DFID promoted key policy areas that were reflected as special themes in the final agreement. In order to achieve this, DFID developed working papers and worked closely with like-minded donors and the Bank to inform discussions on these issues. The IDA16 replenishment negotiations were also reinforced through DFID's monitoring of IDA in nine countries.

2.90 As an example of DFID's approach to using experience to influence the Bank, it worked with NGOs to identify the extra support required by low-income countries during a crisis and developed new lending arrangements to enable the Bank to disburse money quickly to these countries. DFID then sponsored a successful pilot of the new funding instrument and the learning from this pilot was then used in the IDA16 negotiations to get approval for the *Crisis Response Window*.

2.91 DFID used its experience with the Asian Development Bank on performance measurement and worked with other donors to get agreement to use a four-tier approach for the IDA16 *Results Measurement System* and the *Corporate Scorecard*.

2 Findings

Progress with IDC recommendations

2.92 IDC reported on the World Bank in March 2011⁴⁶ and the UK Government responded in May 2011.⁴⁷ Our review indicates that some progress is being made by the World Bank, as summarised below and in the Annex (Figure A6).

2.93 IDC's key recommendations for areas where DFID should press for improvement are summarised below, along with the progress that has been made:

- **Improvements in the Bank's procurement process:** a review is starting in February 2012 which will take two years to complete;
- **An open and meritocratic process for selecting the current President's successor:** the Board of Governors has approved proposals for the next selection process but it remains to be seen whether the new process makes any difference to the type of candidate selected. The current President's first term will end on 30 June 2012;
- **A more equitable allocation of voting shares for developing countries:** voting shares are next due to be reviewed by the Bank in 2015 and DFID and HM Treasury have begun considering the implications;
- **Strengthening of IEG:** a new, external head was appointed in November 2011. It remains to be seen what changes this director will make;
- **Close monitoring of the Bank's achievements on gender:** gender equality is a special theme in IDA16, the 2012 *World Development Report* is on gender equality and development and each new CAS will draw on and discuss the findings of a gender assessment; and

- **Affordable energy access for the poor, a faster transition to low-carbon energy use and more support to improve the financial viability of renewable energy:** climate is a special theme in IDA16 and each new CAS will include a discussion of climate change vulnerabilities and include activities in climate change mitigation and adaptation when requested by the recipient country.

2.94 DFID, working through UKDeI, should continue to promote the need for progress in these areas.

⁴⁶ *The World Bank, Fourth Report of Session 2010-11*, House of Commons, International Development Committee, 2011, <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmintdev/606/606.pdf>.

⁴⁷ *The World Bank: Government Response to the Committee's Fourth Report of Session 2010-11*, House of Commons, International Development Committee, May 2011, <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmintdev/1044/1044.pdf>.

3 Conclusions and Recommendations

Conclusions

- 3.1 DFID provides effective oversight of the World Bank, both as a shareholder and as a donor. The nature of the relationship between the two organisations is that DFID does not micro-manage the Bank. In our view, DFID's combination of ongoing engagement through the Executive Board, assurance of effectiveness of the Bank's processes and risk-based country monitoring is a sensible approach.
- 3.2 The UK Executive Director and the UK Delegation to the Bank are active contributors to discussions about policies and priorities in the Bank and have access to relevant management information through the Executive Board.
- 3.3 DFID relies on the effectiveness of World Bank processes and has assessed that these provide adequate control. We are satisfied with the assessments carried out by DFID and the control provided by World Bank processes. DFID then holds the Bank accountable for performance, aiming to ensure that UK contributions deliver results in recipient countries. DFID uses information and independent evaluations provided by the Bank. This is supplemented by its own risk-based monitoring at the corporate level, as well as reporting and identification of critical issues in the countries where DFID is present.
- 3.4 DFID effectively managed its IDA16 replenishment negotiations and succeeded in getting most of its main priorities reflected in the final agreement.
- 3.5 Decisions in the World Bank are made, as far as possible, by consensus and the UK is effective at building the relationships necessary to make progress on its priorities. The desire for consensus means that progress can be slow in areas where priorities are not shared or where there are difficult problems to overcome. Despite this, DFID has influenced change and modernisation in the Bank in recent years.
- 3.6 We recognise that trust funds are an important part of the approach to providing development assistance. We are concerned, however, that DFID does not have a single corporate strategy for trust funds and that they can be set up by country offices or other divisions within DFID with limited

scrutiny. DFID has started to reform its approach to trust funds but greater urgency is required because of the scale of funding.

- 3.7 The findings from our review broadly align with those of the Multilateral Aid Review. We too believe that more needs to be done to improve the cost-effectiveness of IDA projects. Beyond this, we are also concerned that 26% of IDA projects completed in the 2008-09 financial year did not satisfactorily achieve their development objectives and that the success rate of IDA/IBRD projects has been falling since 2006. While this may be influenced by the composition of the project portfolio and external factors, more needs to be done to drive IDA performance. This may require, amongst other things, a stronger Bank presence in-country, especially in fragile and conflict-affected states.
- 3.8 It is important for DFID to address these issues at the IDA16 Mid-Term Review and carry them forward into the IDA17 negotiations.
- 3.9 We also believe that there is more that DFID country offices could do to help delivery of results from IDA projects. This would include closer monitoring of at-risk projects and supporting the Bank in addressing these.
- 3.10 Over the next three to five years, the nature of the Bank is likely to change. In particular, middle-income countries are increasing their relative influence. There is a review of voting shares in 2015 that will provide middle-income countries with an opportunity to strengthen their position. They are likely to have a greater influence over the IDA17 replenishment negotiations. These changes reflect shifts in global economic power and may make it more difficult for the UK Government to influence the Bank and achieve the outcomes it wants.

Recommendations

- 3.11 This review makes three recommendations for DFID engagement with the World Bank.

Recommendation 1: DFID should improve its oversight of the World Bank trust funds it is financing and develop a corporate strategy for allocating resources to trust funds in line with

3 Conclusions and Recommendations

UK Government aid objectives, within 12 months.

- 3.12 While DFID is currently implementing a programme to reform trust funds, significant progress needs to be made in 2012.
- 3.13 The corporate strategy should show how DFID's portfolio of trust funds administered by the World Bank contributes to UK Government priorities for international development. In order to achieve this, DFID should co-ordinate priorities for trust funds with country and policy teams and make a clear link to Country Operational Plans, sector and policy plans and the country strategies of the World Bank. This will allow DFID to manage its portfolio of trust funds in a transparent way whilst retaining flexibility.
- 3.14 This is a significant change in approach and will affect many parts of the department. DFID should develop a detailed implementation plan for reforming trust funds in collaboration with the World Bank. The plan should include:
- developing and implementing the proposed corporate strategy for trust funds;
 - rationalising the existing portfolio of trust funds based on the analysis that DFID and the World Bank have conducted;
 - ensuring that all planning and reporting for trust funds follow DFID guidelines (for example, consistent use of logical frameworks and consistent quality of financial and performance reporting); and
 - introducing controls to make sure that all new trust funds are set up according to the strategy, in support of DFID priorities, with particular scrutiny being applied to Bank-executed trust funds.
- 3.15 Central monitoring should be carried out to demonstrate DFID's aggregate financial contribution to World Bank trust funds and the impact that these are having. This should include their contribution to country priorities, as described in DFID Country Operational Plans and wider policy priorities.

Recommendation 2: DFID should work with the World Bank during the remainder of IDA16 and through IDA17 to improve service delivery cost-effectively in fragile and conflict-affected states, including through further decentralisation of staff.

- 3.16 Service delivery in fragile and conflict-affected states has particular challenges. Successful support to these countries will require progress with decentralisation of more Bank staff; the new Nairobi hub is an important step forward but does not go far enough. It will be important for value for money issues to be considered as part of a strategy to drive up service delivery.
- 3.17 Under IDA15, 8% of disbursements were made to fragile and conflict-affected states and, in financial year 2010-11, 43% of recipient-executed trust fund disbursements went to such states. This contrasts with the UK Government's commitment to spend 30% of ODA in fragile and conflict-affected states by March 2015. Support for World Bank trust funds through DFID's bilateral aid programme is an important source of support for fragile and conflict-affected states. Given the large proportion of UK ODA that is channelled through IDA, however, the UK Government may decide to negotiate for an increased proportion of future IDA funding to be allocated to such states to contribute to achieving its target. If agreed, this would need to be provided as additional funding, beyond that agreed through the performance-based allocation.
- 3.18 Options for improving service delivery in fragile and conflict-affected states should be discussed with the IDA Deputies during the IDA16 Mid-Term Review in November 2012 and be followed through into the IDA17 negotiations.

Recommendation 3: DFID should review the principal factors influencing the success of IDA projects. It should then assess how to extend the measures and increase the stretch in targets in the IDA Results Measurement System. DFID should use this work to improve performance and value for money through the IDA17 replenishment negotiations.

- 3.19 The *Results Measurement System* is an important management tool for donors, recipient

3 Conclusions and Recommendations

governments and other interested parties (such as NGOs) to monitor IDA's progress and performance. It is important for DFID to ensure that this system is as effective as possible in driving up IDA performance and value for money. This will require DFID to work with the Bank, other donors, NGOs and organisations representing intended beneficiaries to ensure that the right measures are being tracked, that data is timely and of sufficient quality and that the targets are suitably stretching. The IDA16 Mid-Term Review in November 2012 is the ideal starting point for negotiating necessary changes.

Future ICAI work programme

3.20 In developing our future work programme, we will consider further work on the effectiveness of DFID's relationship with the World Bank. This could be carried out either as a separate review or as part of reviews already planned.

3.21 A key area of focus is likely to be the oversight and governance of trust funds at country level, including the extent to which:

- DFID is able to assess that they are delivering results for the intended beneficiaries;
- they are aligned to recipient and DFID policy objectives;
- donors are working effectively together in setting them up;
- performance issues are being identified and responded to promptly; and
- cost-management is robustly incorporated.

Annex

Overview of the organisation and operations of the World Bank

World Bank Group organisations

1. The World Bank Group comprises five organisations: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID).
2. The World Bank comprises IBRD and IDA and together they provide concessional finance to the governments of middle- and low-income countries. IFC, MIGA and ICSID concentrate on the private sector. IFC provides investment and direct lending, MIGA provides guarantees and ICSID settles investment disputes.
3. The UK Government is a shareholder in IBRD and its voting share is determined by its capital subscription. In 2010, World Bank members endorsed an US\$86 billion increase in capital for IBRD in response to the global financial crisis and a wish to shift voting power towards emerging markets. As at June 2011, the UK's total capital subscription paid in to IBRD is US\$540 million and the total of callable capital is US\$7.8 billion (this is not required unless it is called by the Bank to meet IBRD obligations; this resource has never been called). By 2015, the UK will have a 3.75% share, making it the joint fifth-largest shareholder.⁴⁸

IDA and IBRD

4. IDA provides financing at highly concessional rates, largely as investment credits but also as grants (for example, in the 2010-11 financial year, 17% of IDA15 commitments were grants and 83% were investment credits). Regular IDA credits have a service charge of 0.75% with no interest charge and a maturity of 40 years, including a ten-year grace period.⁴⁹

5. IDA is the Bank's main source of development assistance for fragile and conflict-affected states. Of the 81 countries eligible for IDA support, 27 are currently considered fragile. IDA commitments to fragile and conflict-affected states increased from US\$770 million in 1999-2000 to US\$1.6 billion in 2008-09. Recipient-executed trust fund disbursements to fragile and conflict-affected states in the financial year 2010-11 were US\$1.4 billion, accounting for 43% of recipient-executed trust fund disbursements over the period.
6. The majority of IBRD lending is for investment in projects or programmes with maturities of up to 20 years. Loans have fixed or variable interest rates and, in setting rates, IBRD seeks to recover its borrowing costs. Each country has an individual borrowing limit of US\$16.5 billion (with the exception of India, which is \$17.5 billion). IBRD raises most of its funds by issuing bonds on capital markets.
7. Figure A1 on page 25 illustrates the profile of IBRD and IDA lending in 2010-11 by sector and region. The two sectors with the largest coverage were public administration, law and justice and transportation. The two regions receiving the most lending were South Asia and Latin America and the Caribbean.

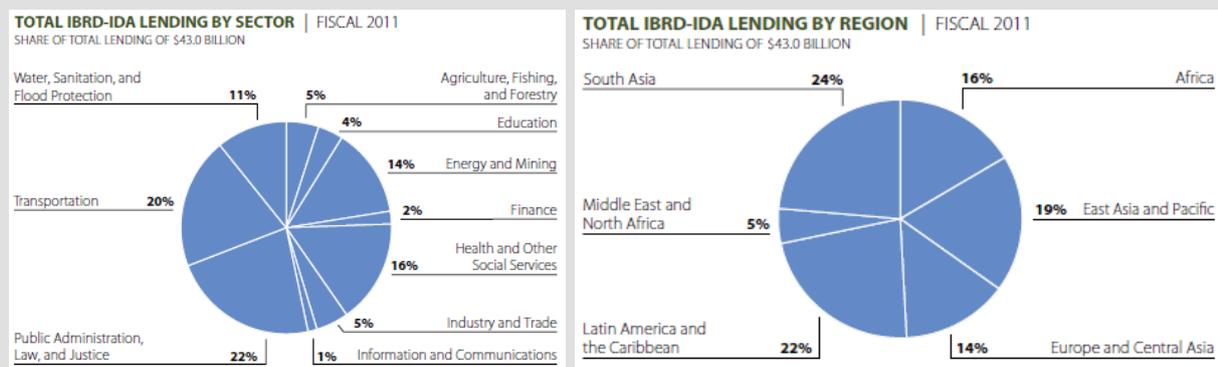
⁴⁸ Information provided by DFID, February 2012.

⁴⁹ *World Bank's Fund for the Poorest Receives Almost \$50 Billion in Record Funding*, IDA16 Replenishment Press Release, World Bank, December 2010,

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22790700~pagePK:64257043~piPK:437376~theSitePK:4607.00.html>.

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Figure A1: IBRD and IDA lending by sector and region, financial year 2010-11



Source: *Annual Review 2011*, World Bank

World Bank disbursements

8. Disbursements by IDA and IBRD, including trust funds, totalled US\$157 billion in the financial years 2007-11 (including US\$18 billion from trust funds).⁵⁰
9. World Bank lending includes Development Policy Operations, where quickly-disbursed loans are used to support policy and institutional changes by a government. In 2010-11, these represented 48% of IBRD disbursements and 19% of IDA disbursements.⁵¹ The proportion of Development Policy Operations in the previous financial year was higher due to the effect of the global financial crisis on recipient countries.
10. There is a time lag between donor commitments and disbursements to member countries, reflecting both delays in project design and procurement and the fact that commitments can be made over long periods, for example where lending is to infrastructure projects. The Bank's disbursement ratio measures disbursements drawn down in a financial year against the undisbursed balance of

commitments. In the 2010-11 financial year, the ratio was 21.5%, exceeding the Bank's target of 20%.⁵²

11. In any year, new commitments made will typically exceed disbursements made, reflecting the long-term nature of most investments. For example, in the 2010-11 financial year, IBRD disbursements were 81% of new commitments. IDA disbursements during the same period were 63% of new commitments (see Figure A2 on page 26).

DFID contributions to the World Bank

12. DFID contributions to the World Bank are described in Section 1 of the main report.

IDA replenishment and allocation processes

13. IDA replenishments are managed in three-year cycles. The most recent replenishment was the sixteenth (IDA16), which was finalised in December 2010. In addition to 52 donor countries, 12 representatives of recipient countries also took part in the negotiations, to increase openness and to help ensure that IDA policies were responsive to country needs and circumstances.

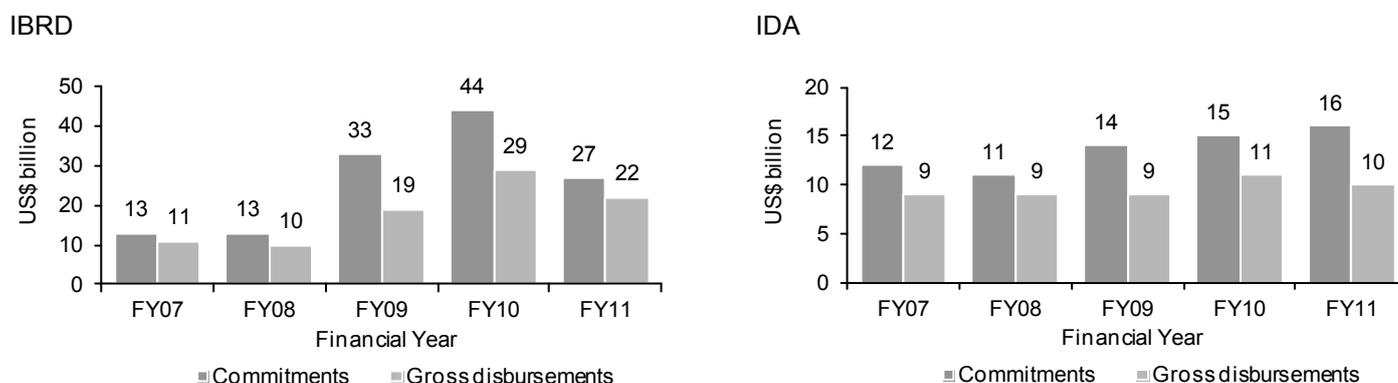
⁵⁰ *World Bank Annual Report 2011*, World Bank, 2011, <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTANNREP/EXTANNREP2011/0,,menuPK:8070643~pagePK:64168427~piPK:64168435~theSitePK:8070617,00.html>. The World Bank data warehouse was used for trust funds.

⁵¹ *World Bank Annual Report 2011*, World Bank, 2011, <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTANNREP/EXTANNREP2011/0,,menuPK:8070643~pagePK:64168427~piPK:64168435~theSitePK:8070617,00.html>.

⁵² Measuring disbursed amount for lending operations as a ratio of the undisbursed balance in a fiscal year. See *Corporate Scorecard 2011*, World Bank, 2011, [http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23003988/DC2001-0014\(E\)Scorecard.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23003988/DC2001-0014(E)Scorecard.pdf).

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Figure A2: Comparison of new commitments and disbursements by IBRD and IDA, financial years 2007-11 (US\$ billion)



Source: World Bank Annual Report 2011

14. The IDA negotiations take place separately from the day-to-day management of the World Bank, led by an IDA Deputy for each donor country. The DFID IDA Deputy is the Director of the International Finance Division, which is responsible for relations with the World Bank.
15. IDA16 resulted in a record replenishment of US\$49.3 billion, to finance project commitments over three years to 30 June 2014. Donors contributed US\$26.4 billion (54%) of this total. Disbursement of IDA16 will take place over nine years and 36% will be paid by donors in the first three years (in line with planned disbursements).
16. The UK Government pledged £2.66 billion to the IDA16 replenishment. The UK's pledge for 2011-14 was 25% higher than under IDA15 when expressed in sterling (£2.13 billion). The UK was the largest contributor under IDA15 and the second-largest contributor under IDA16 (after the USA).⁵³
17. An allocation of funding is based on IDA's Country Performance Ratings. The allocations are determined annually using the following information:
 - the Country Policy and Institutional Assessment assesses countries on their economic management, structural policies, policies for social inclusion and equity and public sector management;
 - the Performance Portfolio Rating captures the quality of management of existing IDA projects and programmes; and
 - country needs are reflected through measures such as population size and Gross National Income per person.⁵⁴ Among fragile and conflict-affected states, post-conflict and re-engaging countries receive exceptional allocations that support their special recovery and reconstruction needs.
18. Once the total IDA funding amount for a country is decided, the process for identifying recipient country priorities and funding them through IDA is two-fold: (a) country priorities and potential projects and programmes are determined through a CAS; and (b) additional priority themes for IDA are determined during the IDA negotiations (for example gender, climate, fragile and conflict-affected states under IDA16) and should be reflected in the CAS.
19. The World Bank aims to be transparent through the use of this allocation process, although it has

⁵³ IDA Replenishments, World Bank, <http://go.worldbank.org/7ARHOU1WK0>. Note that the UK contribution under IDA16 was 4% less than under IDA15 when expressed in Special Drawing Rights (which take into account exchange rate fluctuations). UK commitments are made in sterling and exchange rate fluctuations and risk are managed by the World Bank.

⁵⁴ IDA's Performance Based Allocation System for IDA16, http://siteresources.worldbank.org/IDA/Resources/73153-1181752621336/3878278-1277851499224/Annex_2_IDA16.pdf.

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its critics, including several NGOs. For example, some agencies say that the approach does not adequately reflect country need.⁵⁵

Trust funds

20. Trust funds are financial arrangements set up with contributions from one or more donors, in some cases including the World Bank, to support specific projects and programmes. Although they are classified as investment lending, trust funds are in practice grants. As of December 2011, DFID supported 177 active trust funds through IBRD and IDA. Figure A3 shows the regional spread of World Bank Group-administered trust funds in the 2009-10 financial year.

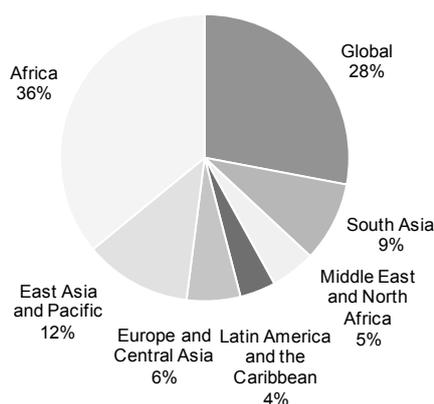
21. At the country level, trust funds are typically used to help prepare or reinforce IBRD and IDA lending programmes, augment Bank supervision, assist countries in re-establishing their creditworthiness and respond to emergency or post-conflict situations. At the regional and global levels, trust funds have supported various Bank or partnership programmes, typically set up to provide knowledge, technical assistance or innovative financing to help meet needs for development-related public goods.

22. Trust funds are often the main financial instrument used for investment and technical assistance in fragile and conflict-affected states. For example, fragile and conflict-affected states received 43% of total recipient-executed trust fund disbursements in the financial year 2010-11; of this amount, Afghanistan received US\$560 million or 41%. In 2007-08, trust funds accounted for about 11% of total ODA from OECD member countries.⁵⁶

23. The three largest trust funds DFID is contributing to are:

- the Afghanistan Reconstruction Trust Fund (2002-20, total commitments US\$860 billion);
- the Multi Donor Trust Fund for Africa Catalytic Growth (2006-14, total commitments US\$350 billion; African countries meeting the programme's criteria are eligible); and
- the Education for All Fast Track Initiative Catalytic Trust Fund (2003-16, total commitments US\$350 billion; now the Global Partnership for Education; 46 developing countries are taking part).

Figure A3: World Bank Group-administered trust funds: disbursements by region, financial year 2009-10⁵⁷



Trust funds outside IBRD and IDA

24. Two types of trust fund have been excluded from our analysis as they are not managed by IBRD or IDA.

25. Financial Intermediary Funds (FIFs) are managed at arm's length to the World Bank, in contrast to other trust funds which the Bank administers and manages. FIFs have their own independent governance and decision-making, where the Bank is a trustee and does not perform an operational role (although for most funds it provides secretariat services). Prominent examples are the Global Fund to Fight AIDS, Tuberculosis and Malaria, the Strategic Climate Fund and the International Facility for Immunisation.

⁵⁵ ICAI review team interviews with Bretton Woods Project, Oxfam International and the Center for Global Development.

⁵⁶ This includes contributions to large global funds (such as the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Global Environmental Facility) as well as the many smaller trust funds managed by the trustee organisations. IEG calculations were based on data from a report on multilateral aid, published by the Organisation for Economic Co-operation and Development, Development Assistance Committee (OECD, September 2010), <http://www.oecd.org/dataoecd/23/17/45828572.pdf>.

⁵⁷ 2010 Trust Fund Annual Report, World Bank, 2010, http://siteresources.worldbank.org/CFPEXT/Resources/299947-1274110249410/7075182-1300896534818/TrustFundsAR2010_Complete.pdf.

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26. There were 18 active FIFs at the end of the financial year 2010-11. Total contributions to FIFs in 2006-11 were US\$24.7 billion (including the Advance Market Commitment to purchase vaccines for pneumococcal diseases). UK contributions during this period were US\$2.15 billion including US\$712 million in 2010-11 (the five-year total included a contribution of US\$350 million from the Department of Energy and Climate Change).⁵⁸
27. IFC had 273 active trust funds at the end of the financial year 2010-11. Total contributions to these trust funds in 2006-11 were US\$2.2 billion. DFID's contribution during this period was US\$452 million, including US\$354 million in 2009-10 in support of the Global Trade Liquidity Programme, which was launched in response to the global financial crisis.⁵⁹

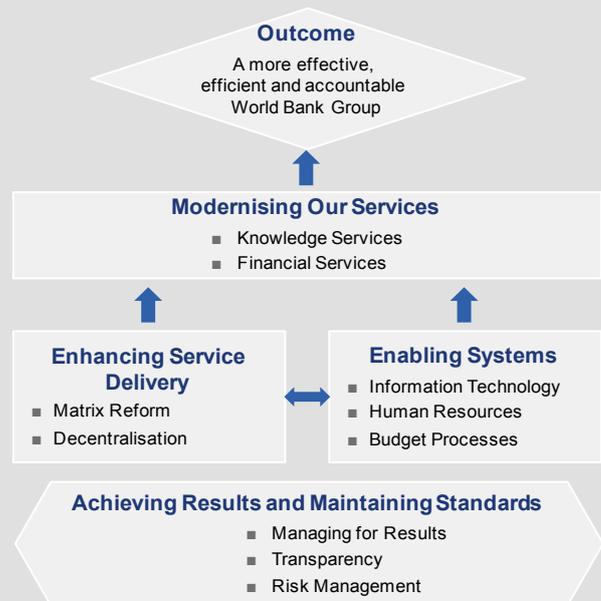
World Bank Modernisation Programme

28. In 2010, the Bank initiated a number of internal reforms, to respond better to long-term development challenges and the changes brought about by the economic crisis. They also reflected the concerns of major donors and the UK was active in pushing for the reform programme during the Spring 2010 negotiations over the recapitalisation of the Bank. The Bank's internal reform agenda is set out in Figure A4.
29. The modernisation programme aims to improve the efficiency, effectiveness and accountability of the Bank's services by:
- modernising the Bank's financial and non-financial instruments;
 - reorganising the Bank; and
 - improving policies, infrastructure and financial and non-financial incentives.

⁵⁸ 2011 Trust Fund Report, World Bank, 2011, <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/CFPEXT/0,contentMDK:23086163~pagePK:64060249~piPK:64060294~theSitePK:299948,00.html>.

⁵⁹ 2011 Trust Fund Report, World Bank, 2011, <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/CFPEXT/0,contentMDK:23086163~pagePK:64060249~piPK:64060294~theSitePK:299948,00.html>.

Figure A4: The World Bank's Internal Reform Agenda



Source: *New World*, *New World Bank Group*, World Bank, April 2010

30. Fundamental to the internal reform agenda is decentralisation. Decentralising the Bank's structure and devolving responsibilities and decision-making to staff in country offices will enable greater collaboration and accountability between World Bank staff and their clients. This will be supported by the establishment of sub-regional hubs and further country offices.
31. In response to calls for the increased participation of developing and transition countries in decision-making, shareholders are currently engaged in reforms to enhance those countries' voices in terms of voting power and shareholding.
32. Equally important to the Bank's internal reforms and the desire for greater accountability is its drive to increase the transparency of its operations. Through its policy on Access to Information, launched in 2010 under the International Aid Transparency Initiative, the Bank has given the public much greater access to information on its activities through the Bank's website. This data can be mined by DFID and other interested parties.

Annex

The Bank believes that enhanced transparency will allow greater monitoring of its projects and funds, which will improve development results.

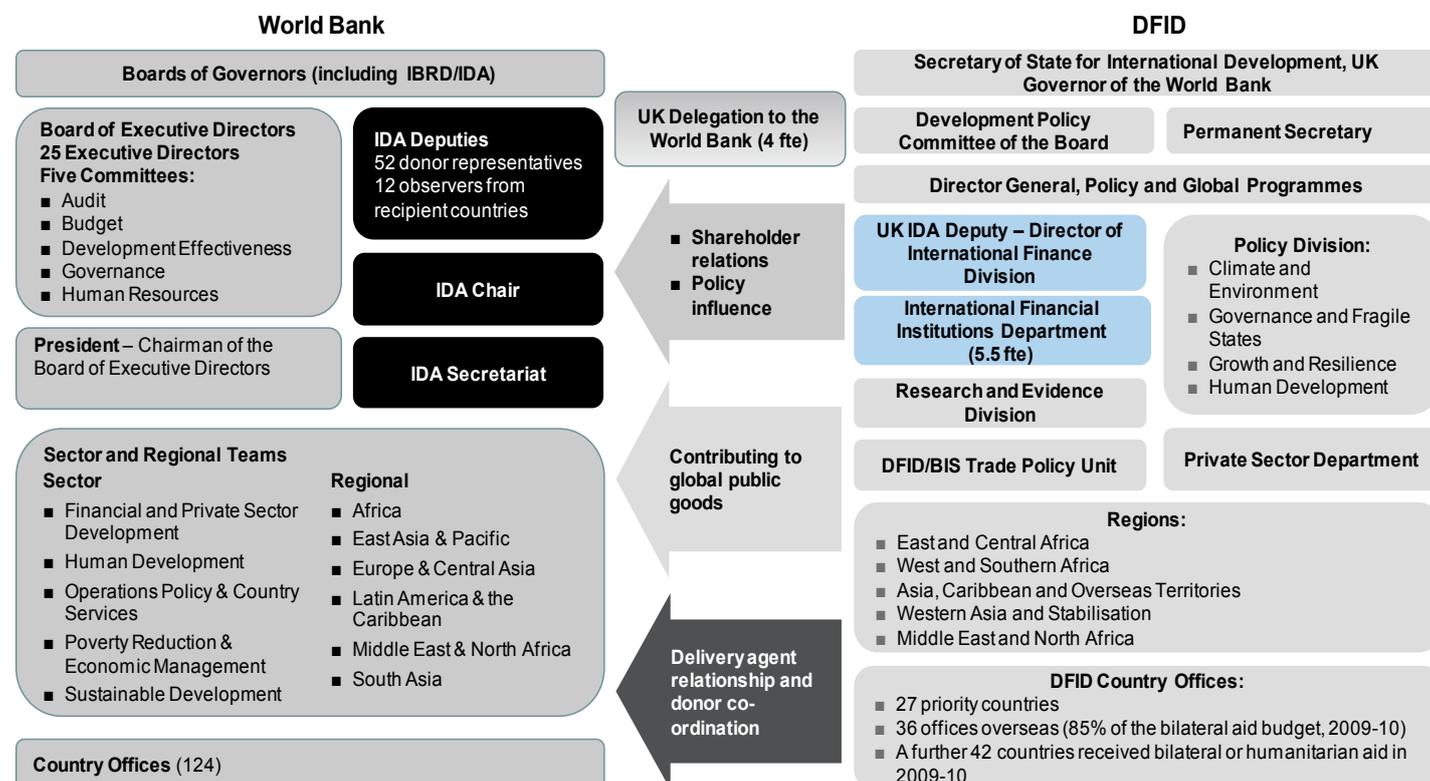
UK engagement with the World Bank

33. The World Bank Board of Governors meets twice a year at spring and annual meetings and sets the policy agenda, as well as dealing with key political issues such as membership and voting shares. Each member country nominates one representative to the Board of Governors – the UK Governor is the Secretary of State for International Development.
34. The World Bank Board of Executive Directors comprises 25 Executive Directors and is chaired by the President. Five Executive Directors are nominated by each of the five largest shareholders (including the UK); the remaining 20 Executive Directors are elected by the other member countries. Acting within authority delegated by the Board of Governors, the Board of Executive

Directors meets twice a week and deals with strategic and operational matters. It also selects the President.

35. The UK Government is represented at the World Bank Group in Washington by an Executive Director. This director is supported by a small team of three full-time equivalent employees who together comprise UKDel. The staff of the World Bank branch of UKDel are employed by the World Bank and have a fiduciary responsibility to it.
36. DFID's International Financial Institutions Department (IFID) leads the UK's relationship with the World Bank. The World Bank team within IFID has five and a half full-time equivalent employees.
37. The main points of engagement between DFID and the World Bank are shown in Figure A5 (this is not an organisational chart).

Figure A5: Key organisational relationships between the World Bank and DFID



Note: 'fte' means 'full time equivalent' employee.

Annex

Progress with IDC recommendations

38. The progress made with implementing IDC's recommendations is summarised in Figure A6.

Independence of IEG

39. DFID carried out an assessment of the independence of IEG using criteria developed by the International Organisation for Supreme Audit Institutions (INTOSAI). See Figure A7 on page 31.

40. Under INTOSAI's Declaration on Independence, supreme audit institutions should protect the value of their work by adding proper safeguards and removing real and perceived barriers to their independence. Whilst these criteria were developed for audit organisations, they are a useful benchmark for the independence of IEG.

Figure A6: Progress with implementing IDC recommendations

IDC recommendations ⁶⁰	Progress to date ⁶¹
Improvements in the Bank's procurement process.	DFID noted this recommendation. The Bank is starting a review in February 2012 which will take approximately two years.
An open and meritocratic process for selecting the current President's successor.	DFID noted this recommendation. The Board of Governors has approved proposals on the selection process for the President ⁶² which will be implemented for the next presidential selection round (before the end of June 2012).
A more equitable allocation of voting shares for developing countries. However, the UK, as one of the largest contributors, should retain sufficient influence within the Bank.	DFID agreed with this recommendation. Voting shares are next due to be considered in 2015; DFID and HM Treasury have begun discussions about the possible implications.
IEG, which assesses the Bank's activities, to be strengthened.	DFID partially agreed with this recommendation. IEG has recently appointed a new head from outside the World Bank.
The Bank's achievements on gender to be closely monitored to ensure that the promotion of girls' education is an early priority for IDA16.	DFID agreed with this recommendation. Gender is a special theme in the IDA16 agreement. The <i>World Development Report</i> for 2012 is on gender equality and development. The Executive Board ensures that each CAS includes a gender-based analysis (there is a time lag before the effects of a CAS flow into new lending applications).
Affordable energy access for the poor, a faster transition to low carbon energy use and more support to improve the financial viability of renewable energy.	DFID agreed with this recommendation. Climate is a special theme in the IDA16 agreement. The World Bank was an active participant in the Durban Climate Change Conference. The Executive Board ensures that each CAS includes a climate-based analysis (there is a time lag before the effects of a CAS flow into new lending applications).

⁶⁰ *The World Bank, Fourth Report of Session 2010-11*, House of Commons, International Development Committee, 2011, <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmintdev/606/606.pdf>.

⁶¹ *The World Bank: Government Response to the Committee's Fourth Report of Session 2010-11*, House of Commons, International Development Committee, May 2011, <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmintdev/1044/1044.pdf>.

⁶² *Strengthening Governance and Accountability: Shareholder Stewardship and Oversight*, World Bank, 2011, [http://siteresources.worldbank.org/DEVCOMMINT/Documentation/22885978/DC2011-0006\(E\)Governance.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Documentation/22885978/DC2011-0006(E)Governance.pdf).

Annex

Figure A7: DFID's assessment of the independence of IEG against INTOSAI criteria

INTOSAI Principles on Audit Independence ⁶³	Assessment of the Independent Evaluation Group (IEG)
1. The existence of an appropriate and effective constitutional/ statutory/ legal framework and of <i>de facto</i> application of the provisions of this framework	IEG is an independent unit within World Bank Group. It reports directly to the Board of Executive Directors, which oversees IEG's work through its Committee on Development Effectiveness.
2. The independence of Supreme Audit Institution (SAI) heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties	The Boards appoint the IEG Director-General for renewable terms of five years with a rank equivalent to that of Senior Vice President. The selection process and the remuneration of the IEG Director-General are managed under the oversight of the Committee on Development Effectiveness, with the advice of the Bank's Vice President, Human Resources. The IEG Director-General can only be removed by the Boards of the World Bank Group (for the World Bank, IFC and MIGA) together, although in practice they operate as one board.
3. A sufficiently broad mandate and full discretion, in the discharge of SAI functions	The IEG Director-General oversees all independent evaluation work and appraises World Bank Group evaluation systems and methods (including self-evaluation methodologies). IEG's work programme is prepared independently from the Bank under the oversight of the Director-General, with the approval of the Executive Directors, representing both shareholders and Bank management. A self-evaluation by IEG in 2011 confirmed that its organisational systems, reporting structures and procedures were consistent with the Good Practice Standards of the Evaluation Cooperation Group (a body that develops and shares good practice in evaluation amongst multilateral development banks). The World Bank does not use the term discretion as a formal criterion for IEG but IEG does have a 'sufficiently broad mandate' to discharge its functions effectively.
4. Unrestricted access to information	IEG has unrestricted access to the staff and records of the Bank. Bank managers facilitate visits to project sites and meetings with client, partner and government representatives.
5. The right and obligation to report on work	IEG is an independent unit within World Bank Group. It reports directly to the Board of Executive Directors. The managements of the World Bank, IFC and MIGA cannot alter study findings or prevent their release.
6. The freedom to decide the content and timing of audit reports and to publish and disseminate them	The managements of the World Bank, IFC and MIGA cannot alter study findings or prevent their release. IEG has an Access to Information policy which states that all reports will be disclosed to the public within 30 days of being circulated to Executive Directors. On an exceptional basis the Boards can decide not to disclose a report where they believe the likely harm caused by disclosure outweighs the benefits. ⁶⁴ Reports are disclosed together with the management response and a summary of any discussion by the Committee on Development Effectiveness or the Board.
7. The existence of effective follow-up mechanisms on SAI recommendations	The IEG Director-General is responsible for reporting periodically to the IBRD/IDA, IFA and MIGA Boards on actions taken by the World Bank Group in response to evaluation findings and on the measures being taken to improve the overall operations evaluation system.
8. Financial and managerial/ administrative autonomy and the availability of appropriate human, material and monetary resources	The IEG Director-General is responsible for managing the personnel, budgets and work programmes of IEG, under the oversight of the Committee on Development Effectiveness and in consultation with the respective Vice Presidents responsible for human resources and budgets. The budget is allocated by the Board and the budget review process is overseen by the Committee on Development Effectiveness as part of its broader oversight of IEG. The IEG budget is not affected by the Bank's policy of maintaining a flat real administration budget.

Source: Assessment provided by DFID following a request from ICAI.

⁶³ *Guidelines and Good Practices Related to SAI Independence*, ISSAI 11, INTOSAI, [http://www.issai.org/media\(428,1033\)/ISSAI_11_E.pdf](http://www.issai.org/media(428,1033)/ISSAI_11_E.pdf).

⁶⁴ *Access to Information Policy*, Independent Evaluation Group, World Bank Group, July 2011, page 8, <http://ieg.worldbankgroup.org/content/dam/ieg/A21.pdf>.

Abbreviations

CAS	Country Assistance Strategy
DFID	Department for International Development
FIF	Financial Intermediary Fund
IAD	Internal Audit Department
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IEG	Independent Evaluation Group (of the World Bank Group)
IFC	International Finance Corporation
IFID	International Financial Institutions Department
INTOSAI	International Organisation for Supreme Audit Institutions
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MOPAN	Multilateral Organisation Performance Assessment Network
NGOs	Non-governmental organisations
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
SAI	Supreme Audit Institution
UKDel	The UK Delegation to the World Bank

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