IDC inquiry into the World Bank

Submission by the Bretton Woods Project

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Summary

1. The Bretton Woods Project is an independent non-governmental organisation (NGO) established by a network of UK-based NGOs in 1995 to take forward their work of monitoring and advocating for change at the World Bank and IMF. See www.brettonwoodsproject.org/about for more details. We welcome the decision of the International Development Committee (IDC) to undertake this inquiry. It is both timely, with the International Development Association (IDA) replenishment and DFID's Multilateral Aid Review concluding, and necessary, as the Bank remains the most influential and controversial player in international development. This paper summarises evidence and highlights key recommendations for DFID, which we hope will be of use to the committee.

2. **Effectiveness of the World Bank Group, including the International Finance Corporation (IFC):** unfortunately, in several critical areas, including health, energy, gender, and private sector development, the Bank's performance has been poor. In the context of the energy strategy review, we believe DFID should urge the Bank to refocus on supporting energy access for the poor and the transition to low-carbon growth. This would include setting a target date for the phase out of fossil fuel lending, as well as fair accounting and ambitious targets for, the Bank's support for clean energy. On gender, DFID should advocate for the World Bank Group to adopt a rights-based approach and integrate gender across all its work, with regular independent assessment of progress. The activities of the IFC have expanded rapidly in recent years, and lending through financial intermediaries now accounts for almost half of its investments, amid concerns about the extent to which they can be proven to contribute to poverty reduction. DFID should commission an urgent independent review.

3. **Internal reform and new priorities:** Bank governance remains dominated by high-income countries, rather than those in which its impacts are most felt and which provide the majority of its funding through loan repayments. We believe that DFID should push for parity in voting rights between developed and developing countries to be achieved at the next reallocation in 2015, as well as the expansion and robust implementation of the Bank's policy on disclosure of information. Conditionality and ideologically-based allocations of finance still impair country ownership. The Bank is yet to limit itself to a strategic role within the international development architecture, while accountability remains inadequate and may be weakened further by ongoing reforms.

4. **The IDA replenishment:** we recommend that the UK should not increase its dollar contribution to IDA in the current replenishment but should instead focus on achieving substantial reforms of the World Bank and IFC in key areas, including health, gender, climate and energy, and the private sector, and in radically improving the legitimacy, transparency and accountability of the institution.

A: Effectiveness of the World Bank Group

5. Unfortunately, in several key areas which DFID and the IDC have highlighted as being critically important for development, the Bank's performance has been poor.

Health

6. The Bank's track record in the health sector has been particularly poor. Its Independent Evaluation Group (IEG) found that $18 billion spent between 1997 and 2008 very rarely produced 'highly satisfactory' outcomes, with 'moderately satisfactory' or better outcomes in only two-thirds of projects. In Sub-Saharan Africa, only 27 per cent of projects achieved satisfactory results. Half of all health projects did not have a "poverty focus".[i] An internal 2009 review of the Bank's health strategy, after 20 months of the new strategy, reported satisfactory outcomes in only 52 per cent of projects.[ii] These results compare unfavourably with those of the Global Fund to Fight AIDS, Tuberculosis and Malaria.[iii]

7. Internal critics have cited entrenched ideas and a lack of expertise at the Bank as stumbling blocks to achieving results.[iv] Reforms such as user fees promoted by the Bank in the past have been criticised for limiting access to healthcare among the poorest, a large proportion of whom are women.[v] Other key causes of poor performance, according to the IEG, are the Bank's "neglect of monitoring and evaluation capacity building and use", which "has resulted in an insufficient results focus", "inappropriate project designs, unrealistic targets [and] inability to measure the effectiveness of interventions."[vi] We welcome the Bank's commitment to improve, but are concerned that significant expansion of the Bank's work in health is commencing without evidence that the major failings detailed in a number of internal and external reports[vii] have been addressed.

Energy and climate finance

8. Despite climate change being a special theme of the next IDA period, the Bank's energy portfolio remains overwhelmingly carbon-intensive. Its financing of fossil fuels reached a record high in financial year 2010, with independent estimates putting the true amount at over $6 billion.[viii] Furthermore, the IEG last year found efforts to mainstream environmental work across the Bank had been "weak" and called for reforms to ensure the Bank has the right skills and incentives to promote sustainable development.[ix]

9. The Bank's energy lending suffers from a worrying lack of transparency. Controversially, fossil fuel plant upgrades and large hydropower are classified as 'clean energy'. There is inconsistent reporting of investments through financial intermediaries, and the counting of entire projects as clean technology spending where that comprises only one component. Independent funds such as the CIFs and GEF – only administered by the Bank – are used to inflate the Bank's figures for renewable energy and efficiency finance.[x] These issues undercut the credibility of the Bank's target for low-carbon investments to comprise half of its energy portfolio by 2011. There is clear value to DFID pushing for rigorous and ambitious targets for the Bank which are independently measured, and advocating a new energy strategy focussed on two goals: supporting energy access for the poor; and supporting the transition to low carbon energy pathways. We have set out this proposal in more detail with other UK NGOs in a recent paper.[xi]

10. Developing countries have demonstrated resistance to a leading role for the Bank in climate finance, and cautioned against undermining the internationally agreed UN process.[xii] The CIFs have also provoked concern about their distribution of loans instead of grants, funding for coal technology, the small proportion of funding going to renewable energy relative to other technologies, and inadequate involvement of civil society groups, particularly at the national and community level.[xiii] In addition, the Bank claims large climate adaptation spending through its core lending despite the lack of a tracking mechanism for the monitoring of climate finance, a definition of what constitutes climate finance, or any measurement of adaptation spending. Without a clear definition of what can be counted as climate finance, overseas development aid may be diverted from other development goals or double counted.[xiv] The UK government should support channels for climate finance that do not undermine the UN process, are fit for purpose and help build trust in international negotiations because they are supported by developing countries.

11. **Key recommendation:** *DFID should engage proactively in the energy strategy review, and urge the Bank to refocus its energy strategy on supporting energy access for the poor and the transition to low-carbon growth. This would include setting a target date for the phase out of fossil fuel lending, as well as fair accounting and ambitious targets for the Bank's support for clean energy.*

Gender

12. DFID rightly recognises gender as a cross-cutting priority in development. While the Bank has made some efforts to improve in this regard, its performance has actually worsened in recent years, according to official reports.[xv] Country-level officials have been particularly critical of the Bank's shortcomings on gender.[xvi] The Bank takes a selective approach to gender, which is not systematically integrated into high-level decision-making or across its work. In financial year 2009, only one-quarter of economic policy work and three-quarters of social sector operations were gender-informed. The Bank's evaluators also cite insufficient efforts to implement accountability and results frameworks, establish a monitoring system, or provide consistent funding. The Bank's gender plan for 2011-13 may improve monitoring, but maintains the selective approach and lacks a rights focus.

13. **Key recommendation:** *DFID needs to demand more of the Bank on gender, including advocating that the World Bank Group adopt a rights-based approach and integrates gender across all its work, with regular independent assessment of progress.*

The International Finance Corporation (IFC)

14. The IFC's activities have grown significantly in recent years but lack a clear focus on poorer countries and smaller enterprises. Social and environmental performance has been relatively weak, and monitoring, evaluation and transparency need to improve dramatically. The IFC's support for the private sector has expanded rapidly in recent years but there are serious doubts about what value it adds. Low-income country policymakers are concerned that IFC support goes "mostly to a very few largest projects and transnational investors", where (a) the need for concessional finance is lower and (b) potential development benefits are smaller than in poorer countries and small and medium enterprises.[xvii] According to the IEG, in only one third of cases does IFC investment offer additionality in the sense of improving projects through specialised advice, or raising standards of corporate governance and environmental and social sustainability. Social and environmental performance of the

IFC's portfolio in Africa has been particularly weak.[xviii] Almost half of its funding is channelled through financial intermediaries, on the mistaken premise that the development of *any* part of the financial sector is likely to be beneficial for developing countries.

15. As we have argued in a recent in-depth joint report, the IFC should refocus on investment in critical areas where private sector activity is weak and development needs high, including small businesses.[xix] Its approach to financial intermediaries should be selective, working only through those that support the IFC's professed objectives of sustainable development and poverty reduction, and which are not based in tax havens. It should focus on outcomes by developing a clear strategy that links to national plans.

16. Accountability and transparency are especially weak in the Bank's private sector work, most of all for its investments through financial intermediaries.[xx] There are also serious concerns about the limited nature of the IFC's performance standards, which fall short of human rights agreements, echoing civil society groups' longstanding critiques of weak and poorly implemented social and environmental safeguards across the Bank. Like the European Bank for Reconstruction and Development, the World Bank Group should commit to ensuring that its investments do not cause or contribute to human rights abuses. It must also address the lack of transparent engagement with affected communities. Proper monitoring and oversight are vital, instead of heavy reliance on clients' self-reporting with little supervision or verification. The recommendations of the IFC's Compliance Advisor Ombudsman, which are now frequently disregarded by the IFC, should become binding.[xxi]

17. Key recommendations:

- *DFID should engage with the review of IFC performance standards to bring them into line with human rights agreements and improve accountability through monitoring, oversight and compliance mechanisms. DFID should further encourage the IFC to specifically state that it will not support projects that violate human rights, bringing it into line with policies adopted by the EBRD.*
- *DFID should commission an urgent independent review of the extent to which the IFC's lending to financial intermediaries can be proven to contribute to poverty reduction.*

B: Internal reform and new priorities

Governance

18. The latest round of governance reforms left high-income countries with over 60 per cent of voting power across the World Bank Group – Bank claims to the contrary were based on a misleading classification of countries.[xxii] Of particular concern is the fact that low-income countries hold 6 per cent of voting shares averaged across the different arms of the World Bank, including just 11 per cent at IDA. G24 developing country ministers have stressed that redressing the "democratic deficit in the governance structure is crucial for the legitimacy and effectiveness of the World Bank."[xxiii] The best way to rectify this imbalance and make the Bank a more cooperative, developing country driven institution would be to implement rapidly the G20's commitment to an "equality" or parity of voting shares between developed and developing countries.

Transparency

19. The Bank's new disclosure policy is an important step forward, but serious concerns about Bank transparency remain. For example, the exclusion of almost all information

relating to the Bank's "deliberative process" could place major limitations on public participation in decision-making processes. Board meetings will remain closed. Third parties, including countries and contractors, will have the power to veto the release of any information they provide to the Bank. Draft country assistance strategies will not be disclosed routinely and details of corporate expenses are likewise exempt. The policy should be extended and documents disclosed at an early stage to facilitate greater stakeholder participation. Proper implementation will be vital: 42 per cent of cases brought to the Bank's Inspection Panel included alleged violations of the previous disclosure policy.[xxiv]

Country-led development

20. In a number of significant ways, the Bank's approach does not support country-led development. The Bank has somewhat reduced the use of policy conditionality, but in a 2010 survey developing countries reported that "excessive 'one size fits all' conditionalities" remain a major concern, restricting the pursuit of democratically chosen policies appropriate to national contexts.[xxv] A number of studies have shown that the reduction in conditionality is not as significant as the Bank claims, particularly on sensitive issues such as trade liberalisation, and that new, non-transparent forms of conditionality are being applied, contrary to responsible financing principles.[xxvi] The Country Policy and Institutional Assessments that largely determine allocations to IDA countries have also been heavily criticised by developing country governments, the IEG and civil society for not effectively reflecting country ownership, need and effectiveness[xxvii]. The Bank's technical assistance has also been severely criticised for not supporting knowledge development or capacity in client countries.[xxviii] The Bank's 'streamlining' of project risk assessment for investment lending – conducted without public consultation – and its rejection of independent assessment, considered best practice, are also cause for concern.[xxix] More broadly, there is insufficient use of independent assessment and no requirement for action in response to critical evaluations.[xxx]

21. **<u>Key recommendation</u>***: the UK should push for the achievement of parity in voting rights between developed and developing countries to be achieved by 2015.*

The IDA replenishment

22. The UK is currently the largest donor to IDA, and maintaining the same dollar level would require a significant increase in its sterling contribution. The UK has already made a substantial contribution to the IBRD this year. Rather than seeking to address its weaknesses and pursue a well-defined, limited role in the international development architecture, the Bank appears more interested in expanding its role and "trying to lead in every sector".[xxxi] The Bank's strategy paper launched earlier this year involved no reflection on weaknesses, past errors or areas where the Bank does not have any comparative advantage.[xxxii] It should not therefore be regarded as a strategy. Mechanisms for follow-up are shrouded in secrecy, with proposals for a corporate scorecard to be made public only after it has already been agreed. As we set out with nine other NGOs in an April paper, we therefore believe it would be a significant mistake to increase funding to the Bank in the absence of major reforms.[xxxiii]

23. **<u>Key recommendation:</u>** t*he UK should not increase its contribution to IDA in the current replenishment. Instead, it should focus on achieving substantial reforms of the World Bank and IFC in key areas, including health, gender, climate and energy, and the private sector, and in radically improving the legitimacy, transparency and accountability of the institution.*

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[ii] IEG (2009) *Implementation of the World Bank's strategy for health, nutrition, and population results*.
[iii] Bretton Woods Project (2009) 'World Bank health work flawed.'
[iv] Bretton Woods Project (2008) 'World Bank and IMF get a dose of health criticism.'
[v] World Health Organisation (2008) *Report of the Commission on the Social Determinants of Health*; Gender Action (2007) *Mapping multilateral development banks' reproductive health and HIV/AIDS spending*.
[vi] IEG (2009) *Improving Effectiveness and Outcomes for the Poor in HNP* and (2009) *Do Health Sector-Wide Approaches achieve results? Emerging evidence and lessons from six countries*.
[vii] See for example, Oxfam (2010), *Blind Optimism*, ACTION (2010) *Aid without impact*
[viii] Bank Information Center (2010), 'World Bank Group Energy Sector Financing Update**'** http://www.brettonwoodsproject.org/art-566654
[ix] IEG (2009) Annual Review of Development Effectiveness.
[x] Bretton Woods Project (2010) 'Clean energy targets for the World Bank: Time for a recount.'
[xi] Bretton Woods Project et al. (2010) *The World Bank and energy: time for a catalytic conversion.*
[xii] E.g. Matthew Martin (2010) *Developing country views on DFID's multilateral resource allocation: report to DFID.*
[xiii] Bretton Woods Project (2010) 'Update on the Climate Investment Funds', http://www.brettonwoodsproject.org/art-566530
[xiv] Email communication with Eurodad; see also 'Eurodad and Publish What You Fund ask for transparency in climate funds' (2010) http://www.publishwhatyoufund.org/news/2010/09/eurodad-and-publish-what-you-fund-ask-transparency-climate-funds
[xv] For further detail and links to reports, see Bretton Woods Project (2010) 'Gender blindness and conditionality cast shadow over record World Bank lending', http://www.brettonwoodsproject.org/art-566643.
[xvi] Multilateral Organisation Performance Assessment Network (2009) *MOPAN Common Approach: World Bank report.*
[xvii] G20 chair consultation of low-income African countries, Freetown, 14 August 2009; G20 chair consultation of LICs on flexibility and adaptability of IFIs, London, 17 August 2009.
[xviii] IEG (2008) *Independent Evaluation of IFC's Development Results.*
[xix] ActionAid, Bretton Woods Project, Christian Aid, Campagna per la riforma della Banca Mondiale, Eurodad and Third World Network (2010) *Bottom lines, better lives? Rethinking multilateral financing to the private sector in developing countries.*
[xx] Ibid.
[xxi] Bretton Woods Project (2010) 'Performance standards review reveals need to raise the bar', http://www.brettonwoodsproject.org/art-566404
[xxii] Bretton Woods Project (2010) 'Analysis of World Bank voting reforms.'
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[xxv] Matthew Martin (2010) *Developing country views on DFID's multilateral resource allocation*.
[xxvi] E.g. Eurodad (2007) *Untying the knots - How the World Bank is failing to deliver real change on conditionality.*
[xxvii] G20 chair consultations of low-income countries (2009); Bretton Woods Project (2010) 'IEG calls for overhaul of World Bank's lending criteria.'
[xxviii] Deaton et al.(2007) *An evaluation of World Bank research, 1998 - 2005*; Development Finance International (2009, unpublished) *Survey of low-income countries' views on aid quality*.
[xxix] Bretton Woods Project (2010) 'Secret World Bank shake-up?'
[xxx] Compliance Advisor Ombudsman (2010) Review of IFC's policy and performance standards on social and environmental sustainability and policy on disclosure of information; Bretton Woods Project (2010) 'World Bank performance standards review reveals need to raise the bar.'
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[xxxii] Bretton Woods Project (2010) 'Secret World Bank shake-up?'
[xxxiii] Bretton Woods Project *et al.* (2010) 'Funding the World Bank - The sixteenth IDA replenishment.'