The World Bank and the International Finance Corporation

Bretton Woods Project input to the DFID Multilateral Aid Review

September 2010

1. Summary

The Bretton Woods Project is an independent non-governmental organisation (NGO) established in 1995 by a network of UK-based organisations, to take forward their work of monitoring and advocating for change at international financial institutions. We welcome the government's commitment to reviewing its funding to and support for the World Bank Group and trust that the evidence and recommendations below will be of use in the Multilateral Aid Review (MAR).

This paper focuses on the World Bank (the International Development Association, IDA, and the International Bank for Reconstruction and Development, IBRD) and the International Finance Corporation (IFC). At present, the World Bank is the largest multilateral recipient of UK aid,[1] with the UK having become the largest IDA donor at the last replenishment, and the Bank also being the recipient of a significant amount of additional UK funding. Critically, the Bank is also the most influential and controversial of the institutions under review.

This paper is divided into three sections. First, we focus on poverty reduction results, and find that on key issues highlighted by the government as development priorities – health, gender, climate and the private sector - the Bank's performance has often been poor. Second, we examine country ownership, accountability and transparency, and argue that significant reforms are still needed to make the Bank a more legitimate and effective institution. Finally, we conclude with concerns that, rather than addressing its weaknesses and pursuing a well defined but limited role in the international development architecture, the Bank is too often afflicted by 'mission creep'. In the context of these concerns, we believe that the UK government should focus its efforts on pushing for policy and institutional change at the Bank, and should not increase its funding to the institution. As a joint UK NGO paper on the IDA replenishment has argued, alternative channels can provide better use of UK funds.[2]

2. Poverty reduction results

We share the government's determination to ensure that aid supports poverty reduction and sustainable development. Unfortunately, in many areas which the government has highlighted as being critically important for development, the

Bank's performance has been poor. Below we focus on four key areas: health, gender, climate change and the private sector.

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".[3] 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.[4] These results compare unfavourably with those of the Global Fund to Fight AIDS, Tuberculosis and Malaria.[5]

Internal critics have cited entrenched ideas and a lack of expertise at the Bank as stumbling blocks to achieving results.[6] 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.[7] 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."[8] We welcome the Bank's commitment to improve, but are concerned that significant expansion of the Bank's work in health is intended without evidence that the major failings detailed in a number of internal and external reports[9] have been addressed. As in the other areas highlighted in this paper, we believe the UK's major focus should be on pushing for a significant improvement in the Bank's approach and results, not supporting increased funding for the Bank.

The government rightly recognises **gender** as a cross-cutting priority in effective support for development. While the Bank had taken some steps to improve in this regard, its performance has actually worsened in recent years, according to the IEG.[10] Country-level officials have been particularly critical of the Bank's shortcomings on gender.[11] Gender is not systematically integrated into high-level decision-making or across the Bank's work: 'coverage' in areas affected by its Gender Action Plan, including agriculture, private sector development and infrastructure, stood at only 41 per cent in 2008.[12] The Bank's evaluators also cite insufficient efforts to implement accountability and results frameworks, establish a monitoring system, or provide consistent funding, as dragging down performance.[13]

We agree with the government that **climate change and environmental issues** are centrally important if development gains are to be made and sustained. Development finance has a vital role to play in enabling countries' transition to low carbon growth and in improving access to energy among the poor. However, the Bank has not responded rapidly enough to these imperatives and its energy portfolio remains overwhelmingly carbon intensive. Its finance for fossil fuels reached a record high in financial year 2010, exceeding $4.7 billion.[14] Over the last three years, Bank lending for coal[1] at $6.5 billion has roughly matched donor commitments to the Climate Investment Funds (CIFs).[15] The contradictions within the Bank's portfolio undermine its efforts to address climate change. Furthermore, the IEG found efforts to mainstream environmental work across the Bank were "weak."[16] It called for reforms to ensure the Bank has the right skills and incentives to promote sustainable development.[17]

There is also a worrying lack of transparency around the Bank's energy lending, with controversial categorisation of fossil fuel plant upgrades and large hydropower as 'clean energy', inconsistent reporting of investments through financial intermediaries, and independent funds such as the CIFs and GEF inflating the Bank's figures for renewable energy and efficiency finance.[18] 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 the UK supporting more rigorous and ambitious targets for the Bank which are independently measured, and pushing for 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 our proposals with other UK NGOs in a recent paper.[19]

Developing countries' have demonstrated resistance to a leading role for the Bank in climate finance, and cautioned against undermining the internationally agreed UN process.[20] Specific concerns regarding the operations of the Climate Investment Funds (CIFs) are set out in a separate submission on the subject of climate finance.[21]

The **IFC's support for the private sector** has expanded rapidly in recent years but there are serious doubts about what value it adds.[22] 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.[23] 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.[24] For example, the IFC's recent $0.5bn energy efficiency finance programme in China failed to achieve key aims including benefiting small and medium companies, and building partners' capacity. At one of the two partner commercial banks, energy efficiency finance actually increased less than at comparable, non-participating banks.[25] Social and environmental performance of the IFC's portfolio in Africa has been particularly weak.[26] 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.[27]

Accountability and transparency are especially weak in the Bank's private sector work, most of all for its rapidly expanding investments through financial intermediaries.[28] There are also serious concerns about the limited nature of the IFC's performance standards, echoing civil society groups' longstanding critiques of weak and poorly implemented social and environmental standards. The IEG found that over the ten years to 2008, more than one-third of Bank projects had "inadequate environmental and social supervision manifested mainly in unrealistic safeguards ratings and poor or absent monitoring and evaluation."[29]

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.[30] More broadly, there is insufficient use of independent assessment and no requirement to staff to take action in response to critical evaluations.[31]

Above, we have highlighted areas for urgent reform in the Bank which are consistent with UK government's priorities. There are other critical areas where we believe reform is needed which we do not have space to highlight here. For example, the Bank's 'knowledge bank' role has been severely criticised by academic experts both for the reliability of its research, and for adopting an approach that does not support knowledge development in developing countries.[32] Its approach to agriculture has also been called into question.[33]

3. Country ownership, accountability and transparency

As the MAR criteria acknowledge, country ownership is vital for multilateral institutions' legitimacy and effectiveness. In this respect, the World Bank is severely compromised by its governance structure and also often by its approach to development.

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 faulty classification of countries.[34] This means that those countries in which the Bank's impacts are felt, and who provide the majority of Bank funding through loan repayments, have only a minority share. 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.[35] 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."[36]

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. Proper implementation will also be vital: 42 per cent of cases brought to the Bank's Inspection Panel included alleged violations of the previous disclosure policy.[37]

In a number of important 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 report that "excessive 'one size fits all' conditionalities" remain a major concern, restricting the pursuit of democratically chosen policies appropriate to their national contexts.[38] 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.[39]

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.[40] Low-income country ministers have recommended "fundamental reform of the CPIA" to reflect country ownership, need and effectiveness.[41] Country and Bank officials have highlighted the Bank's inconsistent use of country systems as an additional weakness, as well as bureaucratic and unpredictable disbursement – with only 71 per cent of aid disbursed in the intended year.[42] The Bank's technical assistance has also been severely criticised for not supporting knowledge development or capacity in client countries.[43]

4. Conclusion and recommendations

The MAR highlights the importance of strategic performance and complementarity with the broader international development architecture. The serious issues set out above suggest the Bank should urgently address problems of governance and legitimacy, and focus on improving its results in areas where it can add value. Instead, however, the Bank appears more interested in expanding its role and "trying to lead in every sector".[44] 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.[45]

The UK is a major and influential shareholder in the Bank, and well placed to push for reform. As we set out with nine other NGOs in an April paper, we believe it would be a significant mistake to increase funding to the Bank at this time in the absence of major reforms.[46] We therefore recommend that the UK's focus for the World Bank and IFC should be on achieving substantial reforms 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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[1] DFID (2010) *DFID in 2009-10*.
[2] ActionAid UK, Action for Global Health, Bretton Woods Project, Health Poverty Action, Oxfam, Results, Stop AIDS, Tearfund, UK Aid Network, and the World Development Movement (2010) 'Funding the World Bank - The sixteenth IDA replenishment: Major reform must be the price of UK support.'
[3] IEG (2009) *Improving Effectiveness and Outcomes for the Poor in Health, Nutrition and Population: an Evaluation of World Bank Group Support since 1997*.
[4] IEG (2009) *Implementation of the World Bank's strategy for health, nutrition, and population results*.
[5] Bretton Woods Project (2009) 'World Bank health work flawed.'
[6] Bretton Woods Project (2008) 'World Bank and IMF get a dose of health criticism.'
[7] 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*.
[8] 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*.
[9] See for example, Oxfam (2010), *Blind Optimism*, ACTION (2010) *Aid without impact*
[10] IEG (2010) *Gender and Development: An Evaluation of World Bank Support, 2002-08*.
[11] Multilateral Organisation Performance Assessment Network (2009) *MOPAN Common Approach: World Bank report*.
[12] ActionAid UK, Action for Global Health, Bretton Woods Project, Health Poverty Action, Oxfam, Results, Stop AIDS, Tearfund, UK Aid Network, and the World Development Movement (2010) 'Funding the World Bank - The sixteenth IDA replenishment: Major reform must be the price of UK support.'
[13] IEG (2010) *Gender and Development: An Evaluation of World Bank Support, 2002-08*.
[14] Bank Information Center (2010) 'New analysis: FY2010 already the World Bank's largest year for fossil fuel spending to date.'
[15] Ibid.
[16] IEG (2009) *Annual Review of Development Effectiveness*.
[17] Ibid.
[18] Bretton Woods Project (2010) 'Clean energy targets for the World Bank: Time for a recount.'
[19] Bretton Woods Project *et al.* (2010) *The World Bank and energy: time for a catalytic conversion*
[20] E.g. Matthew Martin (2010) *Developing country views on DFID's multilateral resource allocation: report to DFID.*
[21] Climate finance submission, forthcoming
[22] 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*
[23] 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.

[24] IEG (2008) *Independent Evaluation of IFC's Development Results*.
[25] IEG (2010) *Energy Efficiency Finance: Assessing the impact of IFC's China utility-based energy efficiency finance program.*
[26] IEG (2008) *Independent Evaluation of IFC's Development Results*.
[27] Ibid.
[28] Bretton Woods Project *et al.* (2010) *Bottom lines, better lives?*
[29] IEG (2010) *Safeguards and Sustainability in a Changing World: an IEG Evaluation of World Bank Group Experience*.
[30] Bretton Woods Project (2010) 'Secret World Bank shake-up?'
[31] 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.'
[32] Angus Deaton *et al.* (2007) *An evaluation of World Bank research, 1998 - 2005*.
[33] Bretton Woods Project (2010) 'Farming furore: World Bank launches new agriculture fund.'
[34] Bretton Woods Project (2010) 'Analysis of World Bank voting reforms.'
[35] NB These figures are calculated using the Bank's income-based classifications of countries. They therefore differ from the Bank's figures, which refer to categories that do not properly reflect countries' economic status. See: Bretton Woods Project (2010) 'Analysis of World Bank voting reforms.'
[36] Third World Network (2010) 'G24 Ministers call for deeper governance reforms and more tailored lending instruments for developing countries.'
[37] Freedominfo.org (2009) 'Transparency violations common theme for World Bank Inspection Panel.'
[38] Matthew Martin (2010) *Developing country views on DFID's multilateral resource allocation.*
[39] Eurodad (2007) *Untying the knots - How the World Bank is failing to deliver real change on conditionality*.
[40] G20 chair consultations of low-income countries (2009); Bretton Woods Project (2010) 'IEG calls for overhaul of World Bank's lending criteria.'
[41] G20 chair consultations of low-income countries (2009)
[42] MOPAN (2009) *World Bank report*; Matthew Martin (2010) *Developing country views on DFID's multilateral resource allocation.*
[43] Deaton *et al.*(2007) *An evaluation of World Bank research, 1998 - 2005*; Development Finance International (2009) Survey of low-income countries' views on aid quality (unpublished).
[44] Matthew Martin (2010) *Developing country views on DFID's multilateral resource allocation*
[45] Bretton Woods Project (2010) 'Secret World Bank shake-up?'
[46] Bretton Woods Project *et al.* (2010) 'Funding the World Bank - The sixteenth IDA replenishment.'