DRAFT OVERVIEW

With the absolute number of people in poverty falling, growth accelerating in most of the developing world, and globalization deepening, it is perhaps tempting for the World Bank Group to declare its current strategy a success and simply continue implementing it. Yet, these trends are changing the structure of the global economy, and along with it the development challenges the World Bank Group faces. So, these same trends also provide reasons to ask whether the current strategy will still be relevant in the long run, 10–20 years from now. Will it serve us well in the very different world of 2015 or 2030?

This exercise lays the groundwork for selecting a strategy that will enhance the developmental value of the World Bank Group over the next decade and beyond. It identifies the dominant trends in the global economy, the risks of various types of shocks and departures from trend, the emerging challenges for the international development community, and the needed policy responses. It also reflects on the Group's engagement, experience, operating environment, and action in accelerating poverty reduction, promoting sustainable growth, and managing risks. Placing special emphasis on knowledge and learning, it identifies the building blocks for formulating a long-term strategy for the World Bank Group, including possible focus areas and modes of intervention.

The scope for action

Despite dramatic progress, the end of poverty is not imminent. In a base scenario the number of people in extreme poverty will decline by a quarter by 2015, concentrating in Sub-Saharan Africa and South Asia.[1] Poverty will fall more rapidly in South Asia, however, as development gains are slower to accrue in Africa. Within these regions, extreme poverty will also concentrate in low-income countries under stress (LICUS countries, or fragile states), which face continuing instability and conflict and expect only modest gains at best. As many better performing low-income countries graduate to middle-income status in a growing global economy driven by the inclusion of more than 2 billion people in India and China, LICUS countries will constitute an even larger share of low-income countries.

By 2015 some 720 million people will continue to subsist on less than $1 a day, the extreme poverty threshold. Deep poverty, at $2 a day, will remain widespread, with numbers staying close to 2 billion people, two-thirds of them outside International Development Association (IDA)–only countries. Many countries, including middle-income countries, will make only limited advances toward the nonincome Millennium Development Goals, including on child mortality and malnutrition.

Equitable globalization

The international development community must ensure that globalization proceeds equitably. Sustained growth will dramatically expand a "global middle class." With increasing education

[1] In its projections the Long-term Strategic Exercise relies on a conservative baseline scenario. While making more optimistic or more pessimistic assumptions would change the projected severity of various factors, doing so does not affect the direction of the main priorities.

and access to information, societies are opening, and stronger civil societies thrive. Yet despite growing prosperity and citizen participation, demographic trends and accelerating technological change create worrying signs of increasing inequality, within and between countries. The inequality is reinforced in many developing countries by the low quality of basic services and inequitable access to them—often caused by poor governance and a lack of accountability.

Rising inequality may fan social tensions, with real costs to development. While social strife is unlikely to completely derail the momentum of globalization, it could reinforce protectionist pressures and, in some cases, efforts to disengage from the global economy, slowing progress and reducing the welfare gains that can accrue to global society.

Sustainable globalization

Globalization and continuing growth also raise the importance of global public goods and the role of developing countries in managing them. The most prominent is climate change. While industrialized countries have generated most carbon emissions, by 2020 80 percent of incremental emissions will come from developing countries. The need to control communicable diseases is heightened by increased mobility. Global frameworks for trade, investment, intellectual property rights, and migration are also becoming critical, as are regional public goods, particularly shared water resources, which could ignite conflict in several regions.

Despite proliferating initiatives, the institutions and frameworks to deal with many global and regional public goods are still lacking. Some issues, such as climate change, will affect poor countries especially, presenting them with huge costs from adaptation.

Priorities for action

It follows that growth alone will be insufficient to resolve the concerns facing the international development community. Looking ahead, the next development challenge will be to make globalization inclusive and sustainable.

For the global development community, some clear priorities for action emerge from this imperative. First is to ensure that Sub-Saharan Africa and other slow-growing low-income countries fully participate in—and benefit from—the globalization process. Second is to do more to address the challenges facing fragile states. Third is to help slow-growing middle-income countries accelerate growth and to help fast-growing and upper middle-income countries share equitably the benefits of growth. Fourth is to monitor and control global and regional externalities, especially their impact on development and poverty reduction at the country level.

Two trends in the global environment for development

In pursuing these goals the global development community must take into account two important trends that may modify its future modes of intervention—the likely changes in international financial markets and the evolution of the global aid architecture.

As borrowing costs for developing countries have fallen to historic lows, private capital flows have soared to almost $650 billion a year, around $130 per capita. Sovereign external borrowing, by contrast, has stagnated in real terms at some $140 billion, and there has been enormous net repayment of official debt, together with rising reserves in many countries. But these figures hide wide disparities and segmented markets. Most developing countries remain unable to regularly access private debt markets at low cost. Many are vulnerable to the continuing risks of financial crisis, marked by rising spreads and abrupt financing cutoffs. Similarly, many second-tier private firms, and those in frontier regions, have limited access to global finance, even in low-risk countries.

So, many developing countries, particularly the poorest, will remain heavily dependent on development assistance. But the global aid architecture is becoming more complex. With the proliferation of earmarked funds, private donors, and new donor countries, aid provision is more fragmented, raising transaction costs and the risk of policy incoherence. Despite the promise of the Paris Declaration and evidence of greater aid effectiveness, the country-led model of assistance—which puts aid recipients in full control of their development strategy and related development spending—is under threat. Many donors tie funding to specific causes, reimposing strong conditionality. This may prove difficult to reverse because of political considerations; it could also render aid less effective, further discouraging donors from fulfilling their pledges to increase development assistance.

These trends will shape the scope for World Bank Group action. In contributing to the general goal of inclusive and sustainable globalization, the Group will need to respond to a changing international financial environment, where lower spreads limit its financial attractiveness to some investment-grade sovereign borrowers and first-tier private borrowers. It will also have to adapt to more complex global aid architecture. And it will face many challenges that will differ by the countries and the people it tries to reach: slow-growing low-income and lower middle-income countries, fragile states, lagging groups and regions in middle-income countries, and the global population through global public goods.

The framework for action

A synthesis of what has been learned over the past 50 years from different development strategies is slowly emerging. This process is in turn leading to a more pragmatic view of development policies, where the focus is less on rules deduced from theoretical principles and more on the country-specific setting and on approaches that can be transferred from elsewhere.

Emerging wisdom on tackling the development challenge

The emerging synthesis on development strategies is built on a few basic principles. Growth is essential, as is an equitable widening of individual opportunities, which guarantees both social inclusion and faster, more sustainable growth. A competitive private sector and a dynamic export sector are also critical. Yet governments have to provide a supportive environment for pursuing these principles, through sound governance and institutions. This emerging synthesis is less dogmatic than earlier approaches—and less driven by strong and inefficiently detailed donor-imposed conditionality. It recognizes country specificity and the absence of a single template for development.

The foregoing principles are fairly general. How to implement them depends on a country's geographical, societal, and economic environment and its history and institutions. Something that has worked in a given setting might not work in another because of different constraints on policy implementation or different circumstances that will change outcomes. Implementation requires country ownership, careful design, and deep knowledge of national and local circumstances. But the reform experience in any country should be part of the knowledge base available to the global development community. If properly collected and analyzed (something to be dramatically improved), such knowledge can help in understanding why a particular reform worked or did not work, leading to better policy design and outcomes in other contexts.

While there is an emerging synthesis in development thinking, diverse circumstances and the need for care in adapting particular reforms to a given economy complicate policy choices. Embracing this complexity and developing the appropriate knowledge and analytical tools to approach it hold promise for overcoming the errors of the past, making development policies much more effective.

Important knowledge gaps to be filled

A more complete body of experience-based knowledge is thus needed for this approach to development. This requires more research to understand how policy reforms in a specific setting produced particular development outcomes. Governance and institutions, including corruption, have rightly been identified as key factors shaping development potential and determining the effectiveness of development policies in a country. But relatively little is known about what aspects really matter among the many elements that define institutions—and still less about how to modify them. This area stands out as a priority for development research.

Development thinking has also moved beyond a country focus to encompass externalities across countries within the global economy. As globalization progresses, it becomes more crucial to understand interactions among countries and policies and to grasp why global phenomena may work in favor of some countries and against others. Consider the different impacts of trade reforms or climate change. This understanding must then be translated into national, regional, and global policy recommendations.

Understanding what makes development assistance effective

Following the evolution of development thinking, the nature of development assistance has changed. Donors have moved away from detailed intrusive conditionality to "soft" conditionality, supplemented by greater selectivity in funding decisions based on development policies and results. Aid effectiveness is now far less frequently judged on whether strict conditionality was enforced. Instead, donors consider whether the appropriate policies were chosen, given the country's circumstances and the stock of development knowledge—and whether the expected results were attained. Greater accountability among donors, development agencies, and developing countries will reinforce this evolution in the future. But the evolution is not unidirectional. Stricter conditionality through aid earmarking is still a central feature of the burgeoning number of global vertical funds—and some aid from private donors—directed toward specific diseases or education.

Implications for the World Bank Group

The two-pillar framework for thinking about development—improving the investment climate (including the technological drivers of future growth) and empowering people—remains useful, especially with the recognition that growth and distribution are related processes and that the two pillars complement each other. But this framework must be broadened by bringing in two related perspectives on development policies: institutions and governance processes (especially in fragile states), and the implications of key global public goods, including environmental sustainability. And the new country specificity in the relationship between policies and development outcomes puts a premium on measuring, monitoring, and understanding the impact of development projects, programs, and policies and on disseminating that knowledge to practitioners. Crucial tools include statistical systems, country and sector benchmarks, and impact evaluations that increase cross-country learning from development initiatives. The World Bank Group should continue to play a key role in all these areas, collaborating with practitioners, academics, and other development agencies

The instruments for action

The Bank has retained a broad and continuing developmental mandate of raising living standards, particularly where the needs are greatest, but its priorities and activities have evolved to reflect changes in the development environment and in knowledge.

The five arms of the World Bank Group are a development cooperative, which makes the low-cost, easy access to financial markets of its most developed members available to all members on equal terms. Similarly, knowledge and lessons of development experience are provided to all. The value of the cooperative to its members rests on its global membership and engagement in all developing regions, its endowment of capital and reserves, and its wide range of products and services. Considered individually, these features are not exceptional. Together, they are unique. They enable the Group to raise funds competitively, diversify risks, and combine many services to address development problems. And over an exceptionally wide range of policy issues, this mode of operation creates the opportunity to learn from country, cross-country, and global experience much faster than other providers of development services.

The three elements of the service package

The services of the World Bank Group fall in three categories: finance, knowledge, and coordination. Financial services encompass a widening range of products—loans, credits, equity investments, guarantees, sovereign risk and wealth management, and trust fund administration. Knowledge services include country analytical work and technical assistance, global data and research, and gathering and disseminating experience with implementing development projects in differing contexts. Coordination services include working with development partners to overcome failures of collective action (both in countries and in areas of global concern), providing vehicles for cofinancing, and developing new products.

The Bank (the International Bank for Reconstruction and Development and the International Development Association) is overwhelmingly country-driven. About 80 percent of services are directed to country clients, provided roughly equally to low-income and middle-income countries. Of these services, some 30 percent are financial services narrowly defined. Most of the remaining 50 percent consists of knowledge services, half embedded in financing operations. The 20 percent of services that are not country-driven consist largely of sectoral and global knowledge-related activities but also includes a significant share of coordinating, convening, and catalytic activities and trust fund–related work. Unlike country services, where the Bank's engagement is formalized through a Country Assistance Strategy or Country Partner Strategy, no strategic program frames the diverse and fragmented range of global activities.

Finance, knowledge, and coordination services are connected through the budget. Spreads on International Bank for Reconstruction and Development (IBRD) loans roughly cover all services to IBRD country clients, and fees on IDA credits cover all services to IDA clients. Earnings on the capital endowment cover global programs, or flow into IDA, knowledge building, transfers, and reserves. Much of the technical capacity sustained by the Group (especially in the International Finance Corporation and the Multilateral Investment Guarantee Agency) is thus paid for by its financing activities.

Financial activity. As the Group's operating environment has changed, so has the balance of its activities. In line with the growth in private flows, International Finance Corporation (IFC) disbursements have increased 75 percent and Multilateral Investment Guarantee Agency (MIGA) guarantee contracts 45 percent in real U.S. dollar terms since 1995, crowding in much additional private investment. Their business has grown more rapidly with "frontier" countries and with "second-tier" firms unable to access global markets. IDA flows have remained about flat in real terms, with a recent tendency to account for a smaller share of total development aid. Some newer instruments such as guarantees have grown, leveraging private investments about 10 to 1 to bring in some $30 billion in total private financing. Subnational programs without sovereign guarantees are still modest. Trust fund activities have soared, with disbursements reaching half of IDA's. Fee-based financial services have also grown rapidly, contributing to around $11 billion in transactions to help sovereign governments hedge risks. In contrast, IBRD disbursements have fallen by 30 percent in real terms, with prepayments further boosting its equity–loan ratio from about 20 percent in the 1980s and the 1990s to around 33 percent by 2006. Its capital thus tends to be less than fully utilized.

The main factor constraining traditional IBRD lending has been the contraction of real external sovereign borrowing in developing countries. Other important factors include the sharp decline in market spreads, which reduces the financial benefit that the Bank can bring to middle-income members with easy access to international capital markets, and a reputation for slow, high-cost IBRD procedures (equally so for IDA). Benefits, in lower financial costs (only a few developing countries can borrow more cheaply than the Bank lends) and gains from embedded knowledge may outweigh the "hassle factor" (variously estimated at 0.5–1.0 percent of loan size). Yet, the gains accrue largely in the future, while the higher costs are borne today and therefore act as a disincentive to financial engagement.

Knowledge services. Analytical knowledge products for country clients are generally of high quality, according to both internal and independent evaluation, but they may not be evolving fast enough to meet changing demand. This can be masked for a time, since very little analytical work is exposed to a market test. Yet, as countries gain in income and capacity, their ability to source advice from other providers rises, increasing competition here as well. For advanced middle-income countries the Bank cannot expect to retain a full range of expertise in highly sophisticated areas. It will need to be more selective. With more open access to information in many countries, inadequate dissemination implies missed opportunities to support coalitions for change. The shifting emphasis from the "what" to the "how" of development has not yet been adequately translated into greater emphasis on flexible, focused technical assistance complemented by a better understanding of the political economy of reform.

One drawback of the current country-led model is the inadequate incentive for leveraging country experience to provide global public goods. As exemplified in the spread of conditional cash transfer programs from Mexico and Brazil to more than a dozen countries, development efforts in one country can be as significant for their wider knowledge value as for their direct poverty-reducing impact. As a global institution, the Bank has a comparative advantage in global learning, but many learning opportunities are still lost through inadequate focus on results and incomplete use of the lending, learning, and knowledge cycle to extract cross-country lessons from country operations.

Global public goods. The Group's engagement in global and regional public goods covers a wide range of areas: preserving the global and regional commons (climate change, including the management of $2 billion in carbon funds, and shared watercourse management), controlling communicable diseases (avian flu, HIV/AIDS), building global frameworks (trade, financial stability), and creating and disseminating global development knowledge (research, statistics, comparative experience). In many areas the Bank partners with more specialized agencies. Here its comparative advantage lies in aiding the implementation of global and regional public good priorities at country level. Despite a multitude of activities, many driven by the availability of trust funds, there is no focused process to set priorities for activities and scale up those of greatest importance—or to ensure that global and regional are reflected in country programs.

Implications for the Bank Group

The wide range of the Group's interrelated activities rests on a wide range of capabilities. Trust fund management, for example, rests on project and financial management, as well as on sector and country knowledge. Treasury expertise provides a basis for risk- and reserve-management services. Most important, the interaction of finance and knowledge provides the basis for learning by doing, creating dynamic capacity. While some lines of business, as traditionally conducted, have been declining, others are growing rapidly. The question for members of the Group: how can its assets best be deployed to maximize shareholder value in the future?

Building blocks of a strategy for the World Bank Group

Looking forward, the Bank's priorities and business models will have to continue to evolve as shifts in the global development environment and in development thinking change the scope for the Group's contribution. The goal for the development community must be to ensure that global growth and globalization are both inclusive and sustainable in the long run. Strategic choices for the Group should contribute to that goal.

Given the likely evolution of the global economy, four focus areas would be the key components of any World Bank Group strategy for global inclusiveness and sustainability: Sub-Saharan Africa, fragile states, inclusiveness among and within middle-income countries, and global public goods. To address these areas, the Bank must use different modes of intervention that expand and innovate on its present lines of business. The current instruments would offer only limited means to deal with the focus areas, and the process would be inefficient, progressively reducing the absolute and relative importance of the World Bank Group in global development. In the new and expanded modes of intervention, knowledge services and learning are overarching.

The four focus areas

Sub-Saharan Africa. The Bank's poverty focus implies continuing the emphasis on low-income regions, especially South Asia and Sub-Saharan Africa. But the prospect of faster gains in Asia suggests that future emphasis will shift progressively to Africa and a few slow-growing low-income countries in other regions. Given the great diversity of these countries, approaches need to be differentiated. For some the priority is to reinforce recent strong growth and to make it sustainable. For others it is to assist with managing the rents from natural resources. For still others it is to generate the conditions for take-off. But some issues are common to many countries, including strengthening the business climate and the private sector (including progress on governance and anticorruption), combating communicable diseases, managing shared resources, and promoting regional integration. The Bank's role in Africa must also include working with partners to rationalize the chaotic aid architecture.

Fragile states. These countries present a special challenge to the evolving model of aid because of the difficulty of providing them with effective assistance. Even by 2015 and beyond, over half of their population will still live on less than $1 a day. In fact, it is likely that, outside the large countries in South Asia, world poverty will increasingly concentrate in fragile states or in countries which were fragile for some long period. Because of the weak institutions and governance in those countries, the development community needs to seek ways to strengthen the effectiveness of the country-led model of engagement. An assistance model adequate for fragile states would need to coordinate a range of development partners, bypass dysfunctional or corrupt institutions, address the security dimension in overall programs, and reform how success and failure are assessed and rewarded in the Bank.

Inclusiveness in middle-income countries. Inclusive globalization requires progress in poverty-ridden countries. It also ensures nobody is left behind elsewhere in the global economy. This requires helping slow-growing middle-income countries accelerate growth and fast-growing or upper middle-income countries share growth's benefits equitably. Despite high growth, some lower-middle-income countries among the top growth performers will continue to see large pockets of persistent deprivation and may experience increasing inequity. This can be remedied in some cases through interventions to foster growth—particularly through developing national infrastructure—and in other cases through work at the subsovereign level. In all middle-income countries the long experience of the Group in supporting growth- and equity-enhancing reforms within the two-pillar framework is an important advantage for promoting inclusive globalization.

Global public goods. Climate change has rightly galvanized international attention. Other global public goods increasingly important in an interconnected world include water management, communicable diseases, and frameworks covering trade, finance, intellectual property rights, and potentially migration. Development knowledge is another major public good. Some global public goods require knowledge-based advocacy and coalition-building to ensure that the scales are not tipped against developing countries. Some have country-level implications for development and poverty reduction. Successfully addressing global public goods will require major investments, underpinned by suitable financing arrangements. As a global institution with a wide range of service capabilities, the World Bank Group is uniquely placed to play a key role in a number of areas. But it must define that role and set priorities among the many global public goods.

Modes of intervention for the World Bank Group—Some ways forward
How could the World Bank Group be structured to deal with these challenges? The approaches discussed here mostly concern the IBRD and IDA. Although the IFC and MIGA are critical and growing arms of the Group, their activities raise relatively few major strategic issues. The main challenge for them is to ensure (and show) that they provide additionality—not simply substituting investments that would have been made anyhow—and strong developmental impact, while continuing to innovate products and services to keep up with the evolving market demand.

The status quo? No. Does the status quo permit the World Bank Group to satisfactorily address the focus areas? In low-income countries the focus is more on the Bank's programs than on country progress and results or on efficiently mobilizing all development resources. Moreover, the increasing proportion of fragile states will, without a strengthened model for dealing with them, make IDA less effective. And without a change in risk parameters or significant product improvement, the risk-bearing capacity of IBRD capital will not be fully used to address some of the focus areas in middle-income countries. Externalities between finance and knowledge will be progressively lost as selective declining engagement in middle-income countries reduces opportunities for learning and for sustaining a critical mass of development-related skills relevant to poor countries. Another lost opportunity is that the Bank contributes little to addressing the growing demand for regional and global public goods. Although the status quo is sustainable for some time and partly addresses some of the focus areas, it is not an effective response to these priorities.

A range of different adaptations and innovations can be envisioned to address the four focus areas. These extensions and innovations may be combined in different ways as possible building blocks of a Bank strategy.

Leveraging IDA's funds and capacities. Progress in the low-income focus areas requires strengthening IDA. This would not be credible without core financial resources (in the first instance through a successful IDA-15 replenishment), strong knowledge capacity, and real progress on the ground by country programs supported by IDA. Beyond this, the proliferation of earmarked trust funds, many of them set up by IDA donors, presents both competition and an opportunity. In leveraging, IDA would influence the global aid architecture, engaging with donors and funds to maximize their use as harmonized cofinancing vehicles. In sectors where many other donors are active, IDA might systematically play an enhanced catalytic, convening, and coordinating role, leveraging the capacity of others. This role would be particularly important for increasing the efficiency of vertical funds and addressing their inability to deal with general factors that strongly influence their main objectives but are distinct from them—general health system development needed to support focused HIV/AIDS programs, for instance.

Leveraging funds and capacity is more difficult and potentially less effective in fragile states. The problem is the absence of a reliable domestic administration that can implement development-oriented policies using donor resources. These cases clearly need to be handled differently, with simpler and clearer conditionality or more direct monitoring, carefully providing support to weak institutions while ensuring that aid resources are used appropriately. Possible solutions might be to enhance oversight mechanisms in critical areas. Such efforts could include government representatives, local nongovernmental organizations and civil society, and donor representatives closely monitoring the use of the funds, with the World Bank in some cases taking the lead in organizing and managing such a scheme.

Renewing and expanding services in middle-income countries. The World Bank can address inclusive globalization in middle-income countries only if the volume of its intervention remains above some threshold rather than contracting. One way of reversing the contraction is to make IBRD services more flexible, more attractive from both a financial and a knowledge perspective, and more adapted to these countries' development objectives. Simplifying and streamlining procedures are a necessary first step. Several approaches can be considered in turn.

- *Unbundling finance and knowledge services.* Unbundling traditional services should permit delivery of "bare bones" financial services at lower cost, with knowledge services funded by fees. Elements of this model, especially fee-based knowledge services, are essential to any efforts to make the menu of services offered to middle-income countries more flexible. But implementing this model excessively or exclusively could make it difficult for the Bank to maintain its comparative advantages in knowledge and contribute financially as strongly to its development objectives. Nor is it clear how responsive the demand for Bank lending would be from countries with ready access to international capital markets.

  Rather than unbundling services, other approaches consist of enhancing the present model of Bank finance and knowledge intervention, taking into account the changing context. The goal would be to provide a full menu of innovative, flexible, and custom financial services while jointly offering knowledge products adapted to these innovations. The first step in this approach is improving knowledge wherever possible and making sure that the best international expertise is offered in all intervention areas where the Group remains engaged.

- *Easing access to the IBRD.* In view of the possible drop in demand from upper middle-income countries and strong growth performers and given the goal of inclusive globalization, it will be important to reach out more to other lower middle-income countries. The rules governing access to IBRD lending could be eased, including those for countries graduating from IDA-only status. Risk parameters could be modified to permit more exposure to lower middle-income and slow-growing countries, as well as to IDA graduates—to offset lower demand from more creditworthy IBRD clients. To illustrate this point, a halving of lending to the countries with the easiest access to international capital markets (Brazil, Russia, India, China, and Mexico) could be offset by an increase in exposure to other middle-income countries of around 30 percent. The likely graduation of some IDA countries to IBRD creditworthiness in the next decade could also increase demand. And there may well be opportunities for greater use of IBRD resources, even in IDA countries—for example, to finance infrastructure projects viable at IBRD rates but unlikely to be undertaken with IDA resources because of their size.

- *Subsovereign lending.* A priority in fast-growing middle-income countries is to avoid the exclusion of specific groups of people from the benefits of growth. This also applies to geographical areas. Because of difficult administrative or political relationships between central governments and regional states, it may be developmentally more effective to allow subnational entities to borrow directly from the IBRD without sovereign guarantees, as some already do from the IFC. In some areas, such as infrastructure in Africa, there is an equivalent need to adapt and develop instruments to address supranational (regional) demands as well.

- *Contingent financing and insurance.* Instruments should also be developed to provide contingent finance against a range of shocks and some headroom for post-crisis assistance. Especially given the likelihood of increasing climatic instability, the Group could work toward a wider multilateral disaster guarantee facility, perhaps modeled on the Caribbean facility or on weather-contingent crop insurance programs.

Moving toward a global public good bank. The World Bank Group could move decisively to take a far larger role in addressing global public goods, capitalizing on its comparative advantage in linking global issues to action in widely differing country circumstances. The Group—including the IFC and MIGA—could introduce a Global Partnership Strategy to establish priorities on global public goods. It would commit major resources to selected issues where there is a strong mandate and an opportunity for real impact. Likely areas for engagement include some regional public goods (water management), as well as sustaining the environment, combating communicable disease, ensuring that global frameworks work for developing countries (trade, financial flows, and the like), and creating and disseminating development knowledge.

Concessional resources and other incentives will be needed to encourage countries to address global public goods. These cannot come from the Bank alone, but it can be a catalyst. The Bank could create a pool of resources to form the core of a "global public good facility" that would expand and possibly diversify the existing Global Environment Facility. To start the process, funds could be raised by investing part of the Bank's capital less conservatively to provide higher returns than are currently achieved, or, given its strong capitalization, contributing some income that would otherwise be used to increase capital. It would use these resources, together with IBRD lending and other instruments, to leverage investments, for example, in clean energy. Its catalytic role would also include monitoring outcomes to assure accountability and facilitating research on innovations. At a second stage, perhaps after an international agreement is reached on curbing CO^2 emissions, resources for the global public good facility could come from developed countries willing to provide conservation incentives in developing countries, expanding on initiatives such as the recent U.K. facility that subsidizes loans facilitating investments in clean energy.

Enhancing the Bank's overarching role in knowledge services

No matter what combination of focus areas and modes of intervention is selected, the Bank Group will succeed only if it retains and improves its role as the development community's "knowledge bank," especially with its purely financial value-added likely to decline.

Research priorities. The Bank should concentrate first on generating and analyzing evidence on the impact of policies on development outcomes in diverse country contexts. Research should tackle frontier questions on institutions and governance, including on fragile states, and on the implications of environmental sustainability and other global concerns for country programs. Progress is also needed in data gathering. Statistical systems, country and sector performance benchmarks, open information, and impact evaluations that can increase cross-country learning from development initiatives are all becoming indispensable tools to monitor and promote effective development policy.

Core expertise. To sustain the Bank's agenda-setting role, it must maintain and strengthen technical expertise. Core groups of experts in the key focus areas must be retained in-house. Top expertise can be sourced as consultants, but external expertise cannot be effectively used without internal expertise to absorb and adapt it to context. Similarly, the Bank will need a critical mass of in-house expertise to function in middle-income countries, where its crucial knowledge role is to help link with external knowledge networks and adapt knowledge to local conditions.

Global learning. An institutional effort is needed to strengthen the cycle of lending, learning, and knowledge. Initiatives such as the Development Impact Evaluation (DIME) initiative will set incentives to rigorously evaluate development impacts and thus strengthen accountability and produce a global public good—development knowledge.

Two considerations for enhancing the Group's modes of intervention must be added. The first concerns the competitive or collaborative landscape, and the second is about the authorizing environment. On the first, the Group is both a complement to and a competitor with other public and private institutions. It clearly has a collaborative relationship with the International Monetary Fund in day-to-day country support work. The International Monetary Fund looks after macroeconomic stability, and the Bank looks after long-run growth and development potential. The need to reconcile both aspects during macroeconomic turbulence is clear. Likewise, the World Bank often collaborates with regional development banks in designing and financing particular country projects, often bringing its worldwide experience into the collaboration. But they may also compete on specific projects, sectors, and partner countries. The World Bank may also compete with private entities in finance or knowledge.

There is nothing intrinsically wrong with such competition—indeed, it may be in the client's best interest—as long as the Bank fully recovers its costs and provides developmental "value-added" relative to its competitors. From this perspective, the future will reveal whether competitive or comparative advantages evolve in such a way that the Bank has to withdraw from some area or type of product. But shared development objectives encourage the Bank to collaborate or partner with other international organizations or with private entities wherever it may benefit member countries.

On the authorizing environment, the governance procedures of the World Bank Group may require tradeoffs between various focus areas or modes of intervention. In particular, while the various suggestions here may all contribute to development, they often target different beneficiaries. High-income countries may be more in favor of global public good interventions, while developing countries may prefer interventions that contribute more directly to their development. Given the cooperative structure of the World Bank Group and its governance rules, such tradeoffs are perhaps unavoidable. At the same time tradeoffs are much easier to resolve in a growing environment than in a stagnating or even declining environment. The strategic orientations considered here are fully compatible with an expanding World Bank Group, with growth coming in part from renewed and enhanced IBRD lending and in part from the diversification of activities made possible by making more use of IBRD capital.

Measuring long-term progress—The need for self-evaluation

The need for evaluation also applies to the World Bank Group. Most strategic decisions would be easier if they could rely on some estimate, however rough, of the developmental contribution of the Group's various activities. Self-evaluation is also important in the relationship between the Bank Group and the international development community, allowing wider recognition of its comparative advantages and generating support for its catalytic, convening, and coordinating role.

The contribution of the Independent Evaluation Group to this self-evaluation is indispensable. Yet it stops short of measuring the relative developmental contributions of the various activities. Progress toward better evaluation of specific Bank actions against counterfactuals is essential.

Evaluating overall progress toward a general objective may be done more loosely, but more easily, through well designed indicators giving information about whether results intended with a specific strategy are being reached. The analysis here suggests some general indicators of how the Group might perform on the various strategic directions.

- Financial and technical support to the private sector; weight of "frontier" and "second-tier" clients; degree of financial leverage; improved indicators for development impact.
- Use of IBRD financial capacity, including the share of funding supporting equitable development in lower middle-income and slower growing clients.
- IDA disbursements and improvement in indicators of development effectiveness, with a special emphasis on fragile states.
- Measures of the Group's catalytic, convening, and coordinating achievements, notably in IDA countries and fragile states, including partnering with vertical funds.
- Flexibility of country analytic work and technical assistance, as well as of the range of specialized financial services. Extent of reliance on "market tests" for analytical work and technical assistance to ensure client value.
- Clarity of priority setting for intensive engagement in global and regional public goods. Measuring the effectiveness of mechanisms to encourage country-level adoption of critical programs.
- Donor funding for global public goods through an IDA-like or integrated trust fund to blend with other finance and to help countries address such priorities as clean energy.
- Intensity of the lending, learning, and knowledge cycle to ensure maximum learning from operational engagements and a systematic focus on results.
- Existence of critical knowledge mass in selected areas, as well as results on data and statistics gathering and analysis. Quality of development outcome monitoring, and effectiveness of performance-based programs.