STRATEGIC DIRECTIONS FOR THE WORLD BANK GROUP

PROGRESS AND NEXT STEPS

I. Introduction

1. Over the past two decades, much progress has been made in accelerating growth and reducing poverty in developing countries. With the absolute number of people in poverty falling, growth accelerating in most of the developing world, and globalization deepening, the challenges of the future differ markedly from those of the past. Still, too many countries are off track for reaching the Millennium Development Goals by 2015. And too many countries risk being excluded from the potential gains that globalization can bring, particularly those beset with conflict and fragility. Updated and improved estimates based on a new poverty line of $1.25 a day put the number of people living in absolute poverty at 1.4 billion – a stark reminder of the task ahead.

2. In this context, the World Bank Group has a vision “to contribute to an inclusive and sustainable globalization – to overcome poverty, enhance growth with care for the environment, and create individual opportunity and hope.” The shareholders of the World Bank Group endorsed six strategic themes to focus attention and guide the work, emphasizing the poorest countries, and Africa in particular; fragile and post-conflict states; middle income countries; global and regional public goods; expanding opportunity for the Arab world; and knowledge and learning.

3. Following discussions among staff, management, external stakeholders and Executive Directors, the Development Committee welcomed the initial work to define objectives, expected results, and illustrative actions for each of the six themes at its April 2008 Spring Meeting. The framework, which combines an iterative strategic process, close attention to external development, and a vigorous pursuit of concrete actions to achieve development impact in each strategic theme, has since taken hold. It is beginning to have a visible impact on the services to clients through greater innovation, responsiveness, and synergies across the Bank Group.

4. Over the last year a rapidly changing external environment has reminded the international community of the risks, and opportunities, that many of the World Bank’s client countries are facing. The uncertainty from the upheaval in financial markets and the double challenge of responding to high food and fuel prices rippled quickly through countries and had a particularly strong impact on the world’s poorest and most vulnerable populations. Armed conflicts, civil strife, earthquakes and other natural disasters provided a further reminder of the fragility of development gains in many parts of the world.

---


2 The Strategic Directions for the World Bank Group were described in detail as part of the MTSF paper. Medium-Term Strategy and Finance Paper, March 12, 2008, SecM2008-0089.
5. Though much of the developing world has proved resilient to date to fall-out from the turmoil in global financial markets, challenges in vulnerable countries will increase and there may yet be spill over through different channels to countries that currently appear less vulnerable. Countries with high current account deficits, and rising or high inflation could be vulnerable to a sharp slowdown of growth in high-income countries — especially if accompanied by a significant tightening of financial conditions. Weaker growth and sharply tighter credit conditions are likely to cut into government revenues and their ability to invest in order to meet education, health and gender goals.

6. Looking ahead, the on-going process of globalization will present challenges that no country can tackle alone. Climate change is set to dominate the international discussions over the coming years, and poor countries face a particularly high burden of adaptation. The need to control communicable diseases is heightened by increased mobility. Global frameworks, institutions, and markets for trade, investment, intellectual property rights, and migration are also becoming critical. Regional public goods, particularly shared water resources, risk sparking conflict. Increasing population pressures, especially in the poorest regions where Sub-Saharan Africa is expected to add 540 million people between now and 2030, will compound demands for access to land and natural resources. In middle-income regions, a changing population structure will lead to declining labor forces and rapidly aging populations.

7. The future development challenges, and the initial experience under the WBG’s new strategic directions, has affirmed the need for a more flexible and responsive organization that better exploits synergies, innovates, networks, and is more client-oriented. Responding quickly to external crises and ensuring stability in providing services to clients means managing change prudently and with regard to staff and clients. The necessary changes point to an organization that goes well beyond the provision of aid; that helps build markets and institutions, at country, regional, and global levels; that is highly flexible and global in its reach with strong local roots.

II. Six Strategic Themes – Implementing, Learning, Adapting

8. Some 12 months after setting out the Bank Group Strategic Direction, and six months after articulating detailed objectives and actions, implementation is well underway. This section provides an update on the implementation and draws out initial lessons. It does not attempt to provide a comprehensive review of all actions in each theme, but rather highlights selected areas that are shaping the overall directions for the World Bank Group.

9. A number of features have already emerged as broader drivers of change. The increasing focus on frontier markets, including conflict-affected countries, is bringing the World Bank Group together to serve the poorest countries. South-South, and South-

3 See Meeting the Challenges of Global Development; A Long-Term Strategic Exercise for the World Bank Group, October 2007.
4 The six strategic themes and the objectives within each are summarized in Annex 1.
North, collaboration is linking investors and markets across regions. The increasing attention to agility and speed helps respond to global crisis as well as changing conditions in individual countries. And the enhanced engagement with middle-income countries is helping traditional World Bank Group clients become more active shareholders and donors.

10. **Publics also expect a sharper focus on governance and corruption.** This year the Bank has put in place country-level Governance and Anti-Corruption (GAC) strategies for some 27 countries. The Stolen Asset Recovery (StAR) initiative, jointly launched with the UN Office on Drugs and Crime (UNODC), is beginning to show results. In Bangladesh, for example, StAR helped establish an asset recovery task force. And the Extractive Industries Transparency Initiative Plus Plus (EITI++) is rapidly expanding to develop national capability to handle the boom in commodity prices and channel the growing revenue streams into fighting poverty and hunger. With the recent appointments to the International Advisory Board, the recommendations from the Volcker Report have now been implemented – save for the transfer of responsibility for staff misconduct not involving allegations of fraud and corruption to the Office of Business Ethics which will be completed in the new year. These initiatives will enhance transparency and prevention, clarify responsibilities, and strengthen follow-up actions where fraud and corruption is discovered. The recommendations will integrate the work of INT more closely into Bank operations, provide for ongoing monitoring and evaluations, and build a stronger institution.

11. **Gender is an important cross-cutting issue.** This year, the ‘Gender Action Plan – Gender Equality as Smart Economics’ is being put into practice to help make markets work for women at the policy and individual levels, with activities targeting land, labor, agriculture, infrastructure, and finance. For example, the World Bank is developing a three-way partnership with the Nike Foundation and the government of Liberia to provide skills training, business development services, and microcredit for adolescent girls and young women, to improve their employment opportunities and wages.

12. **The Poorest Countries, and especially Africa.** Reaching the mid-point towards the 2015 MDG targets is a strong reminder that the international community must remain focused on basic needs, especially in Africa. But development must be about much more than aid. For the World Bank Group, this means re-doubling efforts to improve service delivery and help countries strengthen investments in agriculture and infrastructure. It also means investments in energy, infrastructure, regional integration, and an expanding private sector. Recent events, particularly the sharp rise in food and fuel prices, have crystallized the Bank Group’s role beyond its traditional investments and policy functions. The response to this global crisis has had a significant impact on the Bank Group’s work program and is pushing the frontiers on agility, responsiveness, and cooperation with partners.

13. The Africa region has shown that it can expand and sustain economic growth. Between 1997 and 2007 – during the span of a decade – some 17 countries that have no oil resources and are home to one third of Sub-Saharan Africa’s population averaged real GDP growth rates of 5.9%. Another eight oil-producing countries, with about 30% of the
The Bank Group has increased its support to African countries eager to build on these achievements. In FY08, total commitments to countries in Sub-Saharan Africa—the WBG’s top priority—stood at $7.3 billion. The Africa Region accounted for just over half of total IDA commitments, and the IFC has expanded the number of countries where it does business from 17 to 25. Prospects for the future are positive, with growth rates in Africa now on a par with those in other developing countries—excluding China and India.

15. Rapid Response to global food crisis. After highlighting the ‘forgotten MDG on Nutrition’ in January, Bank Group leadership in cooperation with the United Nations and others, put food policy at the top of the international agenda. After the strong endorsement of the proposed New Deal for Global Food Policy at the Spring Meeting of the Development Committee, the Board approved a new $1.2 billion rapid financing facility for immediate response to the crisis, including $200 million from Bank income. At the G8 Summit, the ‘double jeopardy’ from high food and fuel prices took center stage. With the Global Food Crisis Response Program (GFRP) the Bank has aimed to combine immediate short-term food stabilization with measures to ensure countries can develop mechanisms for coping with future challenges. As of today, direct support to 32 countries amounting to over $850 million is already being made available as part of the GFRP. The Food Price Crisis Response (FPCR) Trust fund financed with $200 million out of Bank surplus is now fully committed, funding projects in 18 countries, with an additional 11 countries under preparation.

16. Investment and Innovation in Agriculture is on the rise. The lessons learned from the World Development Report (WDR) 2008 on Agriculture for Development and the current food crisis, have underlined the need for a long-term operational strategy to raise agricultural production. The IFC is leading WBG efforts to engage with the private sector to increase food production. The IFC is significantly expanding its investments in agribusinesses, with 40% of its investments now in IDA countries and an active re-engagement in Central Asia. At the Bank, a new Multi-donor Trust Fund is in place to support the AU/NEPAD Comprehensive African Agricultural Development Program. To help countries manage risks, a new Weather Derivative financial product is now available, and Malawi is the first country to integrate this new product in its food security strategy. Innovation is further supported through the Bank’s support for exchange of experiences in the agricultural sciences between leading organizations in Brazil and Africa.

---

17. *Scaling up Regional Integration and Infrastructure.* This year saw a substantial increase in regional projects to promote better trade, infrastructure, and power links. Power transmission interconnection between Malawi and Mozambique, trade and transit facilitation in central Africa, and power transmission connecting Central and South Asia are just some of the examples. The focus on regional integration also shifts the emphasis to public private partnerships and closer World Bank Group synergies between IDA and the IFC.

18. *Building Markets and Institutions.* The continued focus on achieving the MDGs, and the Bank Group’s comparative advantage among many bilateral, multilateral, and private sector development partners, is prompting a greater emphasis on building markets and institutions. The Advance Market Commitment pilot to spur vaccine development to prevent pneumococcal disease is underway, and could pave the way for tackling other diseases. The Global Emerging Markets Local Currency Bond (GEMLOC) program is putting together markets with different degrees of development, including a number of IDA countries (e.g., Nigeria and Kenya), to support local currency bond markets, and facilitate south-south investment opportunities. IFC is increasing its support for Micro, Small, and Medium-sized Enterprises (MSMEs) through support to micro-finance institutions. The IFC is developing a platform to implement the proposal for a ‘one percent solution’—that Sovereign Wealth Funds invest one percent of their holdings in equity in developing countries, particularly Africa.

19. *High-level meetings point to increased collaboration, harmonization, and country ownership.* The needs for global coordination in response to the food crisis, and efforts to advance coordination and harmonization at the country-level, have been at the fore during the Rome Food Summit and the Accra High-level Forum on Aid Effectiveness. Quick gains can be made by working together with the WFP to promote best practice among donors in the provision of humanitarian food aid, manage risks, and promote efforts to prevent export restrictions from interfering with humanitarian food shipments. The World Bank Group has also advocated aggressively for increased predictability, flexibility, and aid volumes. Further progress in harmonization among donors, and further alignment with country priorities is essential, but also requires greater flexibility in operational and fiduciary procedures at the World Bank to join partners in sector programs which use country systems. As the largest single source of development financing, the Bank is fully committed to the Accra Agenda for Action, which will serve as a roadmap for stronger country ownership and accountability for results.

20. *IDA and IFC are well positioned to support the Poorest.* The record IDA replenishment, jumpstarted by a $3.5 billion contribution from the Bank Group’s own income, will make $41.7 billion available for work with the poorest countries. And in doing so, IDA is now supported by a record number of donors. This is an important vote of confidence and an exceptionally strong foundation on which to strengthen the Bank’s role to serve as a platform for delivering aid effectively. The IFC is increasingly directing investment and advisory services toward IDA countries. For the first time this year, IFC’s financial support to the IDA replenishment matches the Bank’s contribution. This is part of a larger IFC strategy that deepens the connection between IFC and IDA to expand private sector investments in developing countries, especially in Sub Saharan
Africa. In FY08, more than 40% of IFC projects were in IDA countries. IFC advisory services are even more heavily concentrated on IDA countries.

21. **Fragile and Post-Conflict States.** In September, the President’s address on *Fragile States: Securing Development* to the International Institute of Strategic Studies set out considerations for the WBG’s and the international communities’ work in fragile states – bringing security and development together, first to smooth the transition from conflict to peace and then to embed stability, so that development can take hold over a decade and beyond.\(^6\) Much of the recent attention focused on responses to natural disasters, the fall-out of the global food crisis, supporting critical transitions as in Nepal, and the successful arrears clearance and re-engagement with several countries (Cote d’Ivoire, Liberia, and Togo). The deepening Bank Group engagement in fragile states is also pushing out the existing frontiers in addressing early recovery gaps, handling emergency responses, coordination with partners, and improved understanding of the nexus between security, governance, and development. The strengthened support to fragile states under the IDA 15 framework has been an important contribution. Going forward, improving knowledge and understanding how best to secure development – to synthesize security, governance and economics to be most effective – will be a key priority.

22. **Emergency Response.** The emergency response procedures approved earlier by the Bank’s Board have proven to be effective in supporting peace-building and stabilization projects and a quick response to the food crisis. Liberia, Haiti, Sierra Leone, Kyrgyz Republic, Yemen, Afghanistan, CAR, Moldova and Tajikistan all benefited quickly from the Food Price Crisis Response Trust Fund. During FY08, the Bank Group’s commitments to fragile and post-conflict countries stood at more than $3 billion, including assistance to Afghanistan, Cambodia, Kosovo, Timor-Leste, Togo, PNG, West Bank and Gaza and the Solomon Islands.

23. **Coordination.** A significant step forward have been the discussions with 12 UN agencies to agree on a UN-WB Fiduciary Principles Accord that should significantly speed-up joint crises and emergency response within well defined limits. Putting an agreement in place quickly is essential for the credibility of the international system. Broader principles based on partnership agreements are also being concluded with the departments of the United Nations (including Peacekeeping Operations and Political Affairs) and the EC.

24. **Knowledge and Learning.** Global knowledge in helping states rebuild after conflict or averting the breakdown of the state is at an early stage. To acknowledge the multiplicity of considerations – from security, rule of law, reintegration of former combatants, basic infrastructure, community development and others – and better define the international response to fragility and conflict, the World Bank has elaborated an extensive research, knowledge and learning work plan that looks into strategic questions such as state- and peace-building, conflict prevention, fostering the role of the private

---
sector in situations of fragile transitions, cross-border challenges, and other sources of fragility. Building on the President’s address on *Fragile States; Securing Development*, the Bank launched the first of a series of headline seminars with global experts from different disciplines. Working with partners to drill-down and roll-out some of the themes set out in this address will be a central focus of the Bank Group’s work in fragile states over the coming year.

25. **Staff Incentives.** A key part of the efforts to increase the Bank Group’s effectiveness in fragile states relates to increased decentralization, and improved incentives for staff to take up positions in challenging environments. The IFC has already taken steps to strengthen its presence in many fragile states, often ahead of the Bank. Improved incentives through a recently approved compensation package for IRBD and IDA are complemented through the development of non-financial incentives. These steps should help attract qualified staff to work in fragile states and sustain the expansion of the Bank’s presence in fragile states that has occurred since FY06.

26. The inclusion of fragility and conflict in the Strategic Directions has deepened the penetration of the agenda through the WBG. Although work in fragile states is advancing at a rapid pace, there remain critical areas for attention, such as skills, incentives, decentralization, and increased flexibility to support country programs. As further thinking around effective approaches to securing development takes shape, consideration may need to be given to a broader set of changes to operational procedures, training, resource allocation, and support.

27. **Middle-Income Countries.** For middle income countries, the WBG continues to adjust its business model to be more responsive, flexible, and innovative. Progress is accelerating, partly building on the changes in loan pricing policy and the extension of IBRD loan maturity. These and other efforts are starting to show results by making financial services more attractive to middle-income countries. Beyond financial and knowledge support, the WBG is working with these countries as responsible stakeholders that will play an increasing role in global affairs from climate change and energy security, to trade and food production. A new model of engagement is being tested with large middle income countries reflected in a very flexible strategy that is adjusted to the rapidly changing needs of these countries. The Africa Region has developed its first-ever strategy for its nine middle-income countries, which taps into the full range of services from across the Bank Group.

28. **Innovative Financial Solutions.** Over the last year the Bank Group has introduced a number of programs that demonstrate its evolving role, from that of a lender to a provider of customized financial solutions for development, and clients have responded well. The Bank has structured customized financial solutions for a number of clients (e.g., Brazil, Colombia, Mexico, Peru, Morocco, Tunisia, Uruguay and Namibia). Treasury’s Sovereign Investments Partnership program is expanding investment options and helping build asset-management capacity in sovereign wealth funds, central banks and official-sector pension funds. The Board has approved catastrophic-risk management products (CAT Deferred Draw-Down Options, or CAT-DDOs, and weather derivatives), enhanced development policy DDOs, and local currency loans financed by capital market
issues. Significant cross-Bank-Group collaboration also has led to an expanding pipeline of sub-national business, including in Russia, Columbia, Morocco, the Philippines, Peru, Turkey, and India.

29. Leveraging MIC work. From reducing the cost of doing business to innovative financial services and new partnership approaches, the WBG’s work on MICs is emerging as an engine for change. A new streamlined Country Partnership Strategy for Mexico and the first-ever development policy to integrate climate change concerns into public policy are important milestones. Innovations that originated from work with middle-income countries, such as derivative products (now used in Malawi), GEMLOC (now including IDA countries), and a new South-South Knowledge Exchange Facility, are yielding benefits across all client segments. The WBG is also working with the Gulf Cooperation Council and others to establish a new Vulnerability Fund that aims to provide funding for poor countries to cope with the impact of high fuel prices.

30. Given the long-standing focus on middle-income countries, it is not surprising to see continued progress in expanding the range and flexibility of financial services offered by the WBG. Actions are underway to reduce the cost of doing business with the Bank, although investment lending reform needs to be accelerated and the progress in the pilot on use of country systems needs to be maintained. Further synergies can be developed by expanding the links between the Bank’s work in MICs and the work on global public goods. A sharp focus on knowledge and learning, as well as improved understanding of available financial and risk management products and services leading to their broader use, can further increase the WBG’s contribution to development in middle-income countries.

31. Global Public Goods. Significant progress has been made in advancing global discussions and shaping the WBG’s contribution to GPGs. The engagement on GPGs is also clearly emerging as a long-term driver of the WBG’s business. As with other global challenges, such as supporting Eastern European and Central Asian countries in their transition to market economies following the break-up of the Soviet Union, GPGs will have a lasting impact on the Bank Group’s role, skills, and operations. While tensions naturally exist between country and global perspectives on GPGs, it is precisely the WBG’s global reach and country presence that allows for constructive action and credible advocacy.

32. Climate Change. Following the successful launch of the ‘Bali Breakfast’ process to institutionalize policy discussions on climate change and development, the Board of Executive Directors endorsed the Strategic Framework on Climate Change and Development for the World Bank Group. The Bank has significantly stepped up its work in climate change, both mitigation and adaptation. The launch of two new facilities: the Forest Carbon Partnership Facility and the Carbon Partnership Facility has further strengthened the Bank Group’s ability to support client needs and in particular their efforts towards lower carbon development paths. In July, the Board approved the Climate Investment Funds, or CIF, which offer funding to help developing countries to test innovative and pioneering approaches to climate change, create a new body of experience and knowledge for effective adaptation, and implement their sustainable...
development strategies. Ten donors have already pledged $6.1 billion to provide interim, scaled-up funding to mitigate increases in greenhouse gas emissions and adapt to climate change. These funds fully support the United National Framework Convention on Climate Change in global climate negotiations. They allow the Bank and other multilateral development banks, together with developing country and donor country partners, to start making progress on climate change today.

33. Much progress has been made in taking concrete steps to address climate change at the country level. For instance, the IFC has signed its first Carbon Delivery Guarantee agreements in Sub-Saharan Africa and South Asia for 1.7 million carbon credits in total. The recent agreement on the recovery and utilization of petroleum gas at the Komsomolskoye oil field, which would otherwise be flared, is generating an estimated 6.7 million tons equivalent in carbon emission reductions for the period 2010 to 2012. When approved by the Russian Government, this project will become an important signal for oil companies in Russia and beyond to further explore carbon financing opportunities to reduce gas flaring – one of the leading causes of global warming.

34. The WBG has continued to provide support and leadership on global issues related to trade, health, and finance. The expanded work program on trade includes helping to improve infrastructure, such as the ports and roads that connect producers to markets, technical assistance on regulatory frameworks, and knowledge tools, such as the Logistics Performance Index, to help countries target reforms. Advocacy research and technical assistance in support of the Multilateral Trading System and regional trade agreements is increasing. An expanded program of trade facilitation could deliver a coordinated package of Bank Group services to an additional 20 countries in the coming 18 months.

35. Strengthening countries’ health systems is at the top of the agenda and it will require much improved collaboration with partners such as the Global Fund and the World Health Organization. The World Bank is ramping up work to support governments to strengthen their health systems, promoting innovations such as results-based financing, and new ways of working with the private sector and civil society. Over the coming months, the number of Bank health systems experts assigned to offices in Africa will double. Efforts to combat malaria will be re-energized with the launch of the second phase of the Malaria Booster Program, designed to move beyond individual countries to cross-border and regional approaches. The World Bank will also co-chair the High-Level Task Force on Innovative Financing for Health Systems launched by Gordon Brown.

36. Preparing for financial crises. The impact of the volatility and uncertainty in global financial markets on the financial sectors of the WBG’s client countries remains uncertain. Several programs are now developed to strengthen the capacity of countries to prepare to deal effectively with financial sector distress ahead of a crisis. An evaluation of the Financial Stability Arrangements (FSA) assesses policies and procedures, institutional and legal capacity relating to financial institutions and markets to determine the country’s preparedness. A Crisis Simulation Exercise (CSE) tests financial stability arrangements. A revamped Financial Sector Liaison Committee (FSLC) will strengthen
cooperation with the IMF, and closer working relations with the Financial Stability Forum (FSF) will lead to more effective crisis measures.

37. **Expanding Opportunity in the Arab World.** The Arab World Initiative (AWI) builds on the WBG’s long engagement with countries in the Arab world, and the increasing dynamism in the Region. Growth rates are at their highest level since the 1970s and many countries are implementing wide-ranging reforms. The AWI will mobilize efforts to capture opportunities for the Arab countries as a group, by complementing country-specific programs with region-wide approaches. The AWI will also seek to push the envelope on difficult common development challenges in the Arab World that could gain by being addressed at the regional level before they get tackled at the country level.

38. **Partnership and Collaboration with Arab and Islamic Development Institutions.** The Bank’s senior management has engaged closely with Arab partner countries, including through the President’s participation in the World Economic Forum on the Middle East in Sharm-el-Sheikh and visits to Egypt and Saudi-Arabia to discuss the areas for cooperation - including Islamic finance, water, education and jobs. The World Bank is assisting the Arab League in the preparations for the first Arab Economic Summit which will take place in Kuwait in January 2009. The World Bank, in partnership with the Arab League and the Arab Monetary Fund, has launched a program of activities to address obstacles to regional integration and to facilitate the implementation of the Pan Arab Free Trade Area (PAFTA). Engagement and collaboration with Arab and Islamic Development Funds has also increased.

39. **Tailoring Bank Group Support.** Priority IDA/IBRD programs, building on ongoing lending and non lending services, include support to education reforms, upgrading of regional infrastructure, reform of the social safety nets, enhancing governance structures, pilot programs for female employment, joint collaborative research with Arab institutions, sustainable use of water resources (including support to the Arab Water Academy and the Arab Water Council) and strengthening food security in the region. Arab countries have not been immune to the rising food prices. As part of the GFRP, the WBG has provided support to Yemen and Djibouti and is currently working on support for West Bank/Gaza, Mauritania, Sudan, Somalia, and the Comoros. The World Bank Institute launched Egypt’s Corporate Social Responsibility initiative to promote private sector engagement in development. New agreements have also been concluded between the Bank and new Arab clients in reserve asset management programs.

40. **Private Sector Support.** The IFC is also increasing its support for south-south projects in MNA and investments by Arab countries in Africa. The IFC has re-engaged in West Bank and Gaza, including with investments in housing finance. It is rolling out and expanding student loans projects in West Bank and Gaza, Jordan, and Egypt that will provide opportunities for tens of thousands of students, and supporting the construction of hundreds of new schools in Egypt. MIGA has issued its first guarantee for a Shariah-compliant operation to develop the port of Doraleh in Djibouti with Dubai Ports World.
41. **Knowledge and Learning.** The Bank Group remains in many areas the premier source of development knowledge. The challenge is to enhance its capacity to share knowledge globally, and help build partnerships and expertise in client countries by becoming a more open, networked organization.

42. **Excellence in Global Knowledge.** Work is underway to develop “Global Excellence” practices that will lead the compilation and dissemination of best practice and policy learning from inside and outside the WBG. The first pilots are currently being designed and will focus on areas such as fiscal contingent liabilities, growth strategies and analytics, employment and labor, and intergovernmental fiscal relations. An important aspect is to involve world class experts from within and outside the WBG.

43. **Networking and Openness.** To strengthen South-South and South-North cooperation, more than 70 existing partnerships are being reviewed and a new South-South Experience Exchange Facility has been established. Traditional and new donors will be working together under this facility through a joint Multi-donor Trust Fund. The Bank is also moving towards an open data platform that will make it the first development institution to unlock its key data resources for public use. A new Web Governance Strategy will make information more accessible and strengthen outreach through the use of new social media functionalities.

44. The World Bank Institute (WBI) will be playing an integral part in fostering the knowledge and learning agenda among staff and clients. Following the recent appointment of a new Vice President, the task is now to consolidate WBI’s work with a sharp focus on results and impact. This will include moving to fewer thematic areas, but greater depth, and fewer but longer-term learning programs. The emphasis will increasingly shift to regional and global learning programs and support to emerging centers of excellence in partner countries.

45. Fully revitalizing the WBG’s leadership as a development knowledge organization will be an on-going multi-year effort. The recent appointment of a Director for Knowledge and Learning Strategy will help expedite progress. Some quick improvements, particularly in providing easier access to knowledge and partnering with external organization can make an important difference now. In some cases, clients may find benefits from fee-based services that the Bank Group can offer beyond the normal level of support, and options for compensation that meet the broad client spectrum are being developed. Ultimately, however, the Bank’s role in knowledge and learning is tied to the skills available in the organization, and their effective and timely deployment for the benefit of the Bank’s clients.

III. NEXT STEPS

46. The focus on the strategic directions, and the six strategic themes, has helped put the particular needs of highly differentiated client groups at the center of the on-going reform efforts. It has also highlighted the synergies that exist across themes. Helping
middle-income countries address their development challenges flexibly, through financial innovation and cutting-edge knowledge, strengthens the WBG’s standing on global issues. Bringing together all relevant partners to focus on the development impact of climate change – particularly on adaptation – benefits the poorest countries. Strengthening partnerships with the Arab world opens new opportunities for investments in the poorest countries. Learning and building global knowledge on fragility and conflict may help low and middle-incomes cope with future challenges.

47. To meet the challenges of the 21st century, the World Bank Group needs to strengthen its global reach, deepen its local roots, and evolve into a dispersed, tightly networked organization that: responds quickly to client needs and changing global and local conditions; uses knowledge as the critical competitive advantage and manages its resources to achieve excellence in services to client; and drives global agendas that matter for poverty reduction, economic growth and development. To do so, it must act as a trusted partner of choice – not of necessity.

48. The World Bank Group’s current business model is reaching its limits in responding to today’s development challenges and exploiting new opportunities. At its core, the World Bank Group has retained its characteristics that have served it well over the past. A strong financial base that allows it to finance long-term development projects – public and private – backed-up by a strong headquarter with globally recruited professionals and an expanding network of country offices. These traits remain highly relevant for some areas, such as large-scale infrastructure investments. In other areas, they are proving to be cumbersome, slow, and inflexible. Changes in the aid architecture, increasing client sophistication, expanding role of the private sector, and advances in technology and communications all provide opportunities that must be seized.

49. Management and shareholders will have to work together to bring the World Bank Group closer to the vision of a nimble, flexible, and client focused organization. At their core, these decisions will impact how the Bank Group deploys its most important asset – its staff – and what incentives are provided to innovate, respond to client demand, network effectively, and direct resources to areas with the highest development impact.

50. An Inter-connected World Bank Group. All strategic themes show the need for enhanced synergies across the World Bank Group institutions. The increasing focus on infrastructure, regional approaches, and public private partnership, demand a more integrated strategic approach across the WBG institutions. This means re-thinking, and even experimenting, with new approaches to joint IFC/IDA country assistance strategies and joint sector strategies. It also requires overcoming differences in procedures and policies across the institutions to minimize transactions costs and speed up services for clients. Additionally, it requires extracting lessons from and better leveraging existing instruments/approaches, ranging from output-based aid to guarantee instruments, so that an ad hoc approach can be transformed into a more structured way of combining Bank Group services to support clients.

51. Global Knowledge and Financial Services. The varying demands from clients for timely access to the best available global knowledge and financial services introduce
tension and the need for trade-offs in managing the Bank Group’s human and financial
capital. Within a constrained resource environment, maximizing flexibility, streamlining
procedures, and moving towards a global business model that recognizes differences
across clients therefore becomes critical. This may require a new platform for managing
global knowledge and strengthened incentives for collaboration, knowledge generation
and sharing.

52. Moving Beyond Aid. In the wake of the financial crisis it is more imperative than
ever that donor countries meet their Gleneagles commitments. But the international
community must also begin to think about aid differently. Private capital— and especially
equity— will be the critical factor in building infrastructure, supplying energy, financing
businesses and trade, and fostering regional integration within an open global economy.
This year, Bank Group’s private sector arm, the International Finance Corporation,
provided more investment (including syndications) to clients than IBRD lending or IDA
assistance. Going forward, the IFC will continue to build investment platforms to help
intermediate investments—not aid—from Sovereign Wealth Funds to Africa and other
poor regions with growth opportunities. The Bank Group will deepen the work, such as
GEMLOC, to help foster the development of local currency bond markets in emerging
markets, or support clients to manage development risks through insurance facilities for
weather and catastrophic events. The IBRD balance sheet and financing capabilities can
be used in combination with donors to broaden available types of assistance, from
advance commitments to develop pharmaceuticals for developing country diseases to
debt or rate buy-downs.

53. Recruiting New Skills. The success of the WBG’s work with many clients
depends critically on deploying the right staff, with the right skills, at the right time, to
the right place. The challenge is to connect the need for local presence and local
knowledge with global knowledge and global experience. For IBRD and IDA, a number
of HR reforms are underway to deploy staff more flexibly across regions and networks,
including implementation of the ‘3-5-7’ rule where the most senior technical staff who
have been within their regions for 7 years or more are now rotating to other assignments.
The identification of “knowledge leaders” will ensure that these experts are devoting a
significant share of their time to support clients around the world.

54. Through the past 60 years, the World Bank often had to refresh its skills to
respond to a changing development agenda. Most recently, the expertise in supporting
countries’ transitions from a planned to a market economy had to be built-up following
the break-up of the Soviet Union. The increasing focus on Global Public Good poses a
similar challenge. Whether it is the increasing capacity needed to support health systems
strengthening, develop the economics of adaptation to climate change, or provide
countries with expertise in energy efficiency, water conservation, and other critical skills,
the Bank Group’s capacity for multi-sectoral skills and global knowledge is expanding.
At the same time, these areas also highlight the future organizational challenges in
reconciling country-based priorities with global interests.

55. Decentralization. Since 1997, the World Bank Group has become increasingly
decentralized. Well over half of the IFC’s staff and one third of IBRD/IDA staff is
already located in client countries. Development partners, from official agencies to non-profit organizations have equally recognized the need to be locally present. The principles of country ownership require that the natural locus for decision making is the client country. The current approach to decentralization requires rethinking. Market dynamics in middle-income countries are evolving quickly with senior national professionals attracting globally competitive salaries. And a headquarters-centric recruitment model within an increasingly decentralized organization is becoming unaffordable due to the costs of overseas assignments.

Policy Reforms. While much of the change needed must come from a change in culture, skills mix, incentives, and location of staff, reforms need to be supported by appropriate changes in policies. The broad agenda includes changes in HR policies, such as overseas assignment benefits, enhanced staff rotation and support to staff working in fragile and conflict-affected states. It will require a new IT architecture and a revamped business model and incentives for knowledge generation and sharing. Operational policies will need to facilitate increasing decentralization and flexibility. The project preparation, approval, and supervision cycle must reduce the need for headquarters review and clearance. Procurement reform needs to accommodate quick responses in volatile and emergency situations.

IV. Conclusion

The World Bank Group remains a unique organization that is well positioned to contribute to an inclusive and sustainable globalization. However, it must evolve to meet the challenges of the 21st century. These changes are already happening – in helping post-conflict states like Afghanistan and Liberia, shaping the global agenda on climate change, bringing the benefits of globalization to frontier countries, leading the way in financial innovation, and maintaining the agility, and the ability to help lead global and national responses to external shocks and breaking issues. The way the WBG operates at its best, as in its response to the food crisis, must become the norm, not the exception.

Managing this change requires the full support of shareholders, close engagement with other organizations in the multilateral system, with bilateral partners, management, and staff. The strategic review on the use of IBRD's capital, implementation of reforms in HR policy, more streamlining of processes and procedures, and a greater focus on development solutions will be helpful in building a Bank more attuned to a new multilateralism for the 21st century.

Although policy changes are needed across all WBG Institutions, this section particularly applies to IBRD/IDA.
Annex 1: Strategic Themes and WBG Objectives

<table>
<thead>
<tr>
<th>Helping to overcome poverty and spur sustainable growth in the poorest countries, especially in Africa.</th>
<th>(i) helping to reach the MDGs, promoting Health, and Skills Development, (ii) strengthening Trade, Regional Integration, Infrastructure and Private Sector Development, (iii) re-invigorating Agriculture and the Environment, and (iv) promoting Governance and Social Inclusion.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Addressing the special challenges of states coming out of conflict or seeking to avoid the breakdown of state.</td>
<td>(i) promoting better global understanding, (ii) promoting improved country-level collaboration, and (iii) deliver visible results through coherent WBG approach.</td>
</tr>
<tr>
<td>Contributing solutions to growth and development in Middle-Income Countries.</td>
<td>(i) improving client responsiveness and flexibility, (ii) expanding range and utilization of financial products, (iii) building a dynamic organization, and (iv) building knowledge to engage on 21st Century challenges.</td>
</tr>
<tr>
<td>Playing a more active role in regional and global public goods.</td>
<td>(i) communicable diseases / public health, (ii) environmental commons, (iii) financial architecture, and (iv) trade.</td>
</tr>
<tr>
<td>Strengthening development and opportunity in the Arab World.</td>
<td>(i) advancing sub-regional integration and the integration of the region with the global economy, and (ii) achieving faster growth, better jobs, lower disparities, greater social inclusion, and better management of natural resources – especially water.</td>
</tr>
<tr>
<td>Becoming a learning organization that leverages the best global knowledge to support development.</td>
<td>It is the objective of the WBG to: (i) create and leverage the Bank’s knowledge to support the global development community, (ii) capture knowledge from the global community and disseminate broadly to benefit clients, and (iii) apply world class knowledge to day-to-day development work.</td>
</tr>
</tbody>
</table>

---

8 A more detailed articulation of each Objective is contained in the March 2008 Medium-Term Strategy and Finance Paper referenced above.