

---

**STRATEGIC DIRECTIONS FOR FY02–FY04**

*IMPLEMENTING THE WORLD BANK'S STRATEGIC FRAMEWORK*

---

**March 28, 2001**

*International Bank for Reconstruction and Development  
International Development Association*



## **Table of Contents**

---

<b>Strategic Directions for FY02-FY04: Executive Summary .....</b>	<b>i</b>
<b>Chapter 1: Implementing the Strategic Framework .....</b>	<b>1</b>
A. Continuing to Improve Development Effectiveness .....	3
B. Clarifying Corporate Priorities and Achieving Alignment and Selectivity.....	7
C. Enhancing Organizational Effectiveness.....	11
D. Stronger Accountability Through Improved Resource and Performance Management .	13
<b>Chapter 2: Financial Resources .....</b>	<b>15</b>
A. Integrated Approach to Resource Analysis .....	15
B. Administrative Budgets for FY02-04 .....	17

### **Tables**

Table 1. Corporate Advocacy Priorities .....	8
Table 2. Global Public Goods Priorities and Bank Business Lines .....	9
Table 3: Resource Planning Framework FY02-04.....	16
Table 4: Indicative Distribution of Planned Real Budget Increase .....	19
Table 5: Indicative Regional Deliverables and Performance Indicators FY97-04 .....	21
Table 6: Administrative Budget Trends FY97-04 .....	22

### **Boxes**

Box 1: The International Development Goals .....	1
Box 2: A More Effective Bank – Improvements over the Compact Period .....	2

## Annexes

Annex 1: Strategic Framework Paper - Key Messages.....	24
Annex 2: The Role of the IDGs in World Bank Strategy .....	25
Annex 3: Rebuilding and Investing in Economic and Sector Work .....	28
Annex 4: Achieving Selectivity and Alignment .....	31
Annex 5: Practising Selectivity at the Country level .....	36
Annex 6: Key Assumptions Underpinning FY02-04 Resource Framework .....	41

This report is the product of a Bank-wide team effort, with inputs provided by VPUs across the Bank.

Core Team: Anders Agerskov, Nazir K. Ahmad, Axel Baumler, Barun Chatterjee, Ian Goldin, Takuya Kamata, Heidi M. Mattila, William Rex, Gerard T. Rice, L. Kathleen Stephenson, John E. Todd, and John Underwood.

Vice President: Anil Sood

Report production was managed by Ruth Kariuki, Rose Nguelie Djieya, Katja Scholz and Emma G. Tablante.

## Acronyms

---

ACS	Administrative and Client Support
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CEM	Country Economic Memorandum
CGAP	Consultative Group to Assist the Poorest
CGIAR	Consultative Group for International Agricultural Research
CPIA	Country Policy and Institutional Assessment
DEC	Development Economics
DGF	Development Grant Facility
ESMAP	Energy Sector Management Assistance Program
ESSD	Environmentally & Socially Sustainable Development Network
ESW	Economic and Sector Work
FAC	Finance, Administrative and Corporate
FIAS	Foreign Investment Advisory Service
FRY	Federal Republic of Yugoslavia
FSAP	Financial Sector Assessment Program
FSD	Financial Sector Development
FPS	Financial Products and Services
GAVI	Global Alliance for Vaccines and Immunization
GDLN	Global Development Learning Network
GEF	Global Environment Facility
GPG	Global Public Goods
HIPC	Highly Indebted Poor Countries
IDG	International Development Goals
IFC	International Finance Corporation
IMF	International Monetary Fund
ISG	Information Solutions Group
ISS	Interim Support Strategy
JSA	Joint Staff Assessment
MD	Managing Director
MDB	Multilateral Development Bank
NGO	Non-Governmental Organization
NSA	New Spending Authority
OED	Operations Evaluation Department
OPCS	Operations Policy and Core Services Department
PACT	Partnership for Capacity Building in Africa
PPIAF	Public-Private Infrastructure Advisory Facility
PREM	Poverty Reduction and Economic Management Network
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSI	Private Sector and Infrastructure
QAG	Quality Assurance Group
QBR	Quarterly Business Review
SDP	Strategic Directions Paper
SFP	Strategic Framework Paper
SSAL	Special Structural Adjustment Loan
SSP	Sector Strategy Paper
SSR	Social and Structural Review
TSS	Transition Support Strategy
UN	United Nations
VPU	Vice Presidential Unit
WBI	World Bank Institute



## Strategic Directions for FY02-FY04: Executive Summary

---

a) The Strategic Directions Paper (SDP) sets out Management’s plans for implementing the major elements of the World Bank’s strategy over the period FY02-04. It builds on the Strategic Framework Paper (SFP) that was discussed with the Executive Directors in January of this year and on which substantial consensus was achieved—including the use of a framework for selectivity at the country and global level, and the use of the International Development Goals as a frame of reference for our work. The thrust of the Framework Paper was to consolidate the gains made during the Compact period, focus on priorities and be more selective, and align all our resources – both human and financial – with those priorities and the work of our partners (see Annex 1). This year’s SDP describes the work underway by the Bank to achieve these objectives and how further progress will be made in the period ahead.\*

b) Because our strategic framework has already been laid out in the SFP, this paper does not attempt to be comprehensive in its coverage of the Bank’s strategy and work program. Rather, it focuses on those strategic issues on which we need to act now. While building on the SFP, this paper also takes into account the further work done by various task forces—on the Compact Assessment, Middle-Income Countries, Cost of Doing Business, Location of Work, and Better Measurement of the Bank’s Products and Services. In addition, it summarizes the ongoing efforts by Management to better align our country and corporate program.

c) The strategic focus of the SDP takes into account the insights of the Strategic Compact Assessment. The Assessment, as the President and many Executive Directors noted, is “tough but fair”—and Management fully endorses its conclusions and lessons going forward. In particular, we recognize that the Bank needs to continue strengthening its managerial capacity and processes. As part of the forthcoming strategy and budget discussions, management is developing a time-bound action plan showing clear milestones and accountabilities. This “roadmap” will be integral to how we implement our strategy.

### **The SDP’s main messages are:**

d) *The post-Compact Bank is delivering a broader range of services and the quality of its products—both lending and knowledge-related—has improved significantly.* The Compact Assessment shows that in a number of fundamental ways, this is a different Bank doing more things, and doing them better, than four years ago. Applying the CDF principles to strengthen country ownership and selectivity, and working more in partnership with others, have set the Bank on a different path of development impact. Overall, the scope, quality and responsiveness of our operations have improved significantly; and the quality of our portfolio today is at its highest level in two decades. Client feedback from multiple sources suggests a more client-oriented, impact-oriented, and “listening” Bank – with a strong focus on poverty reduction.

e) *Continued improvements in the quality of our deliverables, and in our responsiveness to client demand, are planned.* We are building on and mainstreaming the improvements we have made in our approach to poverty reduction and sustainable development. For example:

---

\* The specific implications of Strategic Framework Paper for IFC and MIGA are spelled out in their respective strategy and budget documents.

we are continuing to place special emphasis on participatory approaches—especially through Poverty Reduction Strategy Papers (PRSPs) in the poorest countries. We will also continue to implement the IDA replenishment mandates and, indeed, we plan to expand IDA lending—with a special emphasis on Sub-Saharan Africa, South Asia, and the poorest countries in other regions. In addition, we will increase our delivery of knowledge-related services and capacity building – both in middle- and low-income countries. And we are taking advantage of new technologies to leverage our impact.

f) ***We will be more focused in what we do.*** As outlined in the SFP, the Bank already has a framework for selectivity at three levels aimed at creating an enabling environment for investment in people and sustainable growth: within countries, across countries, and at the global level. Based on the constructive discussions with the Board in recent months, we have put in place a process for better managing our corporate priorities—areas of special institution-wide emphasis—and for better aligning our country programs with them. A Management Committee has been established that will help to determine and strengthen the oversight of these corporate priorities. This will also help us to better align, with our partners, around the International Development Goals (IDGs).

g) ***We will support these efforts by focusing on managerial excellence and better supporting our staff.*** The Compact Assessment noted that the Bank’s management capacity needs to be significantly improved. Complementing a sharpened focus on priorities, therefore, emphasis will be on improving management at every level and on better supporting staff—and thus enabling them to deliver more effectively. As staff is our most important asset, this is a very high priority. Our specific proposals here include a more strategic approach to staffing and investment in staff learning. There are also enhanced efforts to improve management (through development of a new management curriculum) and management/staff cohesion (including through an enhanced internal communications effort). A major irritant to staff—the internal charging system—will be removed effective July 1, 2001.

h) ***We will strengthen our performance measurements.*** We will become more accountable by improving our performance measurement through more focused impact indicators and better measurement of our non-traditional and knowledge-related products. This will be supported by a simplified budget system—making it multi-year and better aligning resource allocation with our priorities. While strengthening the management of the overall budget process, we will also pay special attention to improving our trust fund management.

i) ***The Bank is facing extraordinary budget pressures.*** While our quality and responsiveness have improved significantly in recent years, not all costs of our new and expanded business approaches were taken fully into account under the Compact. For example, participatory approaches are more time- and resource-intensive, and enhanced compliance with safeguard and fiduciary standards – while benefiting our clients and our development effectiveness – have also increased the costs of lending and supervision. At the same time, the Bank has not realized some of the efficiency gains and savings projected under the Compact. These additional costs, combined with the Compact commitment to contain the FY01 budget at the FY97 level in real terms, have led to extraordinary budget pressure—and led to acute stress and lower morale among our staff, who are now working at an estimated average of 25 percent overtime.

j) ***Trade-offs have been made.*** To meet the FY01 budget constraint, Management has made some tough choices. Most painful of all, a significant number of staff left the Bank in FY01—

due in part to budget pressures. In addition, Management has reallocated resources to critical-priority programs not included under the Compact—such as PRSPs, the enhanced HIPC, expanded anti-corruption programs, AIDS, and post-conflict assistance. Strengthened compliance with safeguards has been a further cost. These redeployments involved scaling back and/or deferring other operational programs. As a result, there has been a significant underinvestment in core ESW – in many ways, the foundation of our country work – and in the lending pipeline. Investment in staff’s professional development and learning has also fallen sharply – again, key to the Bank’s future effectiveness. Experience in the first half of FY01 indicates that while quality enhancements made under the Compact are being maintained, this is being achieved at an unacceptably high cost in terms of staff overtime and stress. There is a risk that the gains made cannot be sustained with the current level of budgetary pressure.

k) ***Guiding principles for budget allocation.*** The details of unit work programs, deliverables and resource envelopes will be included in the FY02 budget document (to be discussed with the Board in June). It is already clear, however, that given the increased costs and resource pressures facing the institution, there will be a need for an increase in the administrative budget. To this end, Management has formulated an administrative budget for FY02-04 that represents a phased annual resource envelope that is \$90 million above the FY01 level for FY02 in real terms, with a further \$30 million in FY03, and a constant budget in FY04. The additional resources will be allocated to the highest pressure areas, including investing in country knowledge—through ESW—ensuring implementation of our safeguards and fiduciary policies, meeting demands for increased lending, investing in staff skills and learning, and strengthening our technology platform.

l) The use of additional resources will be guided by the following principles:

- ***financial prudence:*** in the context of the integrated resource planning framework—described in this paper—we have done a preliminary assessment of the Bank’s capital needs and alternative uses of income. Based on this assessment, Management has concluded that the overall FY02-04 resource envelope, as indicated in this paper, represents a prudent use of the Bank’s financial resources;
- ***selectivity:*** reprioritization of commitments to identify feasible redeployments;
- ***maximum leverage:*** the incremental resources required to deliver the program detailed in this paper will be explicitly focused on direct client services and to staff and managers on the operational front line; and
- ***no increase in overheads:*** Management commits to no increase in these costs—defined as the costs of management and administration

m) ***The bottom-line message of this paper is:*** the Bank has been delivering a broader array of deliverables to our clients, with higher quality—but on a budget that is at the same level today as it was four years ago. No other comparable multilateral development institution is performing within this budget constraint. Continuing to deliver on our planned commitments in the high-quality way we have done in the recent past—within the FY01 budget envelope—is not feasible. There are, therefore, significant risks to both quality and volume in the outer years of our budget cycle. To maintain the gains made under the Compact and continue to further improve our effectiveness will require an increase in the administrative budget—to be used as outlined in the table below.

## Indicative Distribution of Planned Real Budget Increase

*(FY01 \$ million)*

<b>Area</b>	<b>FY02 Increase</b>	<b>Explanation</b>
Knowledge-based services	35	More knowledge-based products (ESW , including FSAPs, and research)
Lending Preparation	20	Increase in lending levels and costs (including safeguards and participation)
Lending Supervision	20	Higher costs (including safeguards and participation)
Country Program Support	5	JSAs/PRSPs/disclosure
Learning	5	Professional/management training
Technology Systems	5	Information systems
<b>Total Real Increase</b>	<b>90</b>	

## Chapter 1: Implementing the Strategic Framework

---

1. **Poverty remains the key global challenge<sup>1</sup>:** As described in the SFP<sup>2</sup> and this year's Global Economic Prospects<sup>3</sup> the fight against poverty takes place in a dramatically changing global context – with the increasing importance of the private sector and trade as a source of growth, rapidly advancing technology, and a much stronger role for civil society. The centrality of the poverty challenge is reflected in the International Development Goals (see Box 1 and Annex 2). Because the global development community is aligned around the International Development Goals in an unprecedented way, they provide a unique opportunity to make inroads in the fight against poverty. The Bank is committed to support the international community and, above all, the developing countries themselves, in this effort.

### Box 1: The International Development Goals

1. Reduce the proportion of people living in extreme poverty by half between 1990 and 2015.
2. Enroll all children in primary school by 2015.
3. Make progress towards gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2005.
4. Reduce infant and child mortality rates by two-thirds between 1990 and 2015.
5. Reduce maternal mortality ratios by three-quarters between 1990 and 2015.
6. Provide access for all who need reproductive health services by 2015.
7. Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015.

2. **The Bank has come a long way under the Compact.** The Bank's agenda has changed significantly over the last four years under the Strategic Compact. The Compact Assessment<sup>4</sup> shows that, in many fundamental respects, this is a different Bank doing more, and doing it more effectively, than before. While not all the Compact goals were met, the overall result has been an improvement in the Bank's delivery of services to clients—leading to increases of billions of dollars of effective development assistance for our clients and greater development impact on the ground. In particular, the Bank today has:

- a sharper focus on sustainable poverty reduction;
- embraced country ownership and partnership;
- become closer and more responsive to its clients;
- responded to new development challenges;
- emphasized knowledge as a key driver in development;

---

<sup>1</sup> James D. Wolfensohn: Annual Meetings speech in Prague, October 2000.

<sup>2</sup> "Strategic Framework Paper", January 24, 2001.

<sup>3</sup> "Global Economic Prospects 2001", The World Bank, December 2000.

<sup>4</sup> "Assessment of the Strategic Compact", SEC M2001-0180, March 13, 2001.

- increasingly complemented its work at the country level with regional/global programs; and
- achieved significantly higher quality in all lending and non-lending programs.

Selected data on these improvements are highlighted in Box 2.

### Box 2: A More Effective Bank – Improvements over the Compact Period

	Before the Compact	The Bank Today
We have <b>improved our quality</b> across the board:		
▪ Project quality at entry	In FY97 was 78%	In FY00 is 89%
▪ Economic and Sector Work quality	In FY98 was 72%	In FY00 is 86%
▪ Quality of Supervision	In FY97 was 63%	In FY00 is 92%
We have improved our <b>development impact</b> as measured by the percentage of projects rated satisfactory for development outcomes by OED		
	In FY96 was 69%	In FY00 is 77%
We have <b>introduced the CDF and PRSPs</b> to sharpen our poverty focus and improve country ownership		
	No CDFs No PRSPs	We have 12 pilot CDFs 32 Interim and 4 full PRSPs to date
We have increased the proportion of projects with <b>civil society involvement</b>		
	Less than 50%	More than 70%
We have <b>reduced the time</b> taken from the project concept document to Board consideration		
	In FY96 it took 24 months	In FY00 it took 15 months
We have <b>shifted staff and authority to the field</b> :		
▪ Non ACS regional staff in the field	From 28% in FY97	To 40% in FY00
▪ Country Directors outside of Washington	From 3 in FY97	To 29 in FY00
We have become <b>more transparent</b> in our work:		
▪ Country Assistance Strategies disclosed	Zero CASs disclosed	86 % of CASs in FY00
We have significantly <b>increased funding to new priorities</b>		
▪ Programs to combat HIV / AIDS	\$35 million in FY96	\$622 million in FY01 (estimate)
▪ Debt relief via HIPC	\$0 in FY96	\$ 34 billion of nominal debt relief value committed to date

3. **However, key challenges remain.** The Compact Assessment is candid about some of the goals not achieved over the last several years and the real difficulties we had in implementing some of them. The Compact was an ambitious program for transforming a major global institution in a very short timeframe—and some of its reforms are still playing out. That said, it is clear that we have an unfinished agenda on a number of dimensions:

- strengthened corporate guidance and management;
- efficiency and cost-effectiveness;
- budget processes and systems;
- monitoring and measurement; and,

- human resource measures to support strategic staffing, the matrix and decentralization.
4. Work is ongoing on all of these issues. To ensure quick progress and effective implementation, Management is in the process of developing a time-bound action plan with clearly defined milestones and accountabilities.
5. **The Bank has a clear Strategic Framework.** To address these challenges, Management and the Board discussed—and achieved broad consensus on — a Strategic Framework for the post-Compact period (see Annex 1). The SFP provides guidance on the Bank Group’s overall approach and strategy to maximize development impact. The key message is implementation: to *consolidate* the improvements to our business made under the Compact; to sharpen the *focus* of our work through achieving greater selectivity and setting priorities; and to better *align* our resources—human and financial—with our priorities. We will do so within the context of a three-level framework for selectivity – within countries, across countries, and at the global level – complemented by clarification and proactive management of corporate priorities.
6. We will achieve the above by:
- Continuing to improve development effectiveness;
  - Clarifying corporate priorities, and achieving alignment and selectivity;
  - Enhancing organizational effectiveness; and,
  - Strengthening managerial accountability through improved performance and resource management.

## **A. CONTINUING TO IMPROVE DEVELOPMENT EFFECTIVENESS**

7. **Delivering a broad range of high quality products and services.** Over the Compact period, a combination of client demand and strategic decisions led the Bank to develop a considerably broader and more client-responsive menu of products and services. For example, we introduced PRSPs, HIPC, FSAPs, adaptable lending, anti-corruption programs, distance learning, Partnership for Capacity Building in Africa, and we are increasingly emphasizing private sector involvement in all sectors—including through joint activity of the Bank, IFC, and MIGA. We will continue to improve, refine and consolidate this menu, and better target different types of assistance according to differing client needs and circumstances. At the same time, we will continue to strengthen our core deliverables—in terms of our non-lending and lending services. In particular, we will focus on:

- Improving and expanding our knowledge, capacity building and advisory services;
- Investing in and better managing our lending programs; and,
- Addressing the issue of costs associated with these activities.

8. ***Improving and expanding our knowledge, capacity building and advisory services.*** Experience demonstrates that sound policies are as important to alleviating poverty as financial flows. The Bank is uniquely placed to assist clients in developing policies which meet their needs—through helping them adapt our accumulated global and country experience. In addition, maintaining a strong country knowledge base is critical to informed

country programs and strategies, as well as higher-quality lending. In line with the SFP, we will therefore strengthen our knowledge, advisory and capacity building services by:

- (i) Making a significant investment in Economic and Sector Work (ESW) – this priority was highlighted in the Compact Assessment, the Middle-Income Countries Task Force Report<sup>5</sup>, and the Fixing ESW report.<sup>6</sup>
- (ii) Stabilizing a longer-term decline in funding for research—which again is critical to understanding the underlying problems of and responses to poverty. To ensure maximum operational impact, research will be strongly focused on the priorities identified in the SFP – as evidenced by the proposal to establish a combined DEC/PSI team focusing on the Investment Climate.
- (iii) Strengthening our investments in creating knowledge by ensuring that it is more effectively shared – particularly through the WBI's client learning programs and capacity building. We will also continue to leverage information and communication technologies – such as in the Regions' Live Databases, the Global Development Learning Network, and the Development Gateway.

9. We will invest to rebuild our ESW program and focus it on priority areas, working as far as possible with client countries and other donors. ESW underpins CAS preparation, the overall dialogue with client countries, and the lending program. It enhances aid effectiveness and project quality.<sup>7</sup> Budget pressures have contributed to a deterioration in this important basis for our country knowledge; a recent study showed that less than half of active borrowers have a stock of key ESW products that are less than five years old. The PRSP process now moving ahead in many low income countries contributes to the urgency of rebuilding the ESW program. The process needs to be supported by the systematic use of ESW, notably of core diagnostic and integrative work, including poverty analysis and assessments of key aspects of public financial management. Overall, the investment in ESW will go about equally into core products necessary to underpin the analysis for CASs and into products tailored to specific country priorities for the dialogue and future lending as identified in CASs. In rebuilding ESW, among the highest priorities are integrative fiduciary assessments and the underlying public expenditure reviews, country financial accountability assessments, and country procurement reviews. This work, in which partnership with others is already growing, is essential to underpin programmatic lending and to identify action plans that can be further supported by the Bank and other donors. A fuller explanation of the planned ESW program is included in Annex 3.

9. **Investing in and managing our lending programs.** With the planned budget envelope for FY02, we expect to deliver up to an additional \$2.5 billion of lending over our projected lending in FY01 for IBRD and IDA (see Chapter 2). As outlined in the SFP, we will continue to adapt our lending business through a gradual shift toward more programmatic approaches, grounded in assessments of country public expenditure, procurement, and financial management systems, and high-impact projects with strong demonstration effects. As always,

---

<sup>5</sup> “Report of the Task Force on the World Bank Group and the Middle-Income Countries”, SEC M2001-204. March 27, 2001.

<sup>6</sup> “Fixing ESW: Where Are We?” CODE2000-76, July 11, 2000.

<sup>7</sup> See “Fixing ESW: Where Are We?” (CODE 2000-76), July 11, 2000; and David Dollar and Lant Pritchett, “Assessing Aid: What Works, What Doesn’t, And Why”, World Bank Policy Research Report (New York: Oxford University Press for the World Bank, 1998).

the mix of lending support to any country will be adapted to country circumstances and outlined in the CAS, based on discussions with the client country. We are committed to reducing the cost of working with (and in) the Bank by simplifying our business processes and reducing delays. We also will work with borrowing countries and with other donors to harmonize our policies and procedures, with the objective of reducing the transactions costs of development assistance to aid recipients.

- (i) *Low-Income countries:* We are planning to lend an estimated \$7 billion to IDA-eligible countries in FY02. Within IDA, we will allocate additional resources based on two clear criteria – where poverty is most concentrated and where the policy environment is most favorable for poverty reduction. This implies an increase in resources for Sub-Saharan Africa, South Asia, and poor countries in other regions—where the majority of those subsisting under one dollar a day live. Increased investment in these regions is also in line with our commitment to maximize our impact on the International Development Goals. Within these regions, the emphasis will be on the countries where the policy environment is becoming increasingly conducive for poverty reduction. We will also support post-conflict countries with appropriate instruments. Commensurate with the ongoing gradual shift toward a programmatic approach to lending, we will develop Poverty Reduction Support Credits (PRSC) to underpin the implementation of PRSPs. PRSCs will be grounded in a strong analytic and diagnostic ESW, especially on public expenditure management, procurement, and financial management and poverty analyses. Our work on harmonization of policies and procedures with client countries and with other donors is especially important for low-income countries, in order to increase the effectiveness of scarce aid resources and to reduce the strains on country implementation capacity.
- (ii) *Middle-Income countries:* The Bank’s poverty reduction mission remains vital here due to the large numbers of poor people in middle-income countries. Hence lending programs in support of policy and institutional reform and high impact investments can have high value added in reducing global poverty. In addition, while some upper middle-income countries have increasing access to alternative sources of capital, this access remains volatile and—as the Bank learned during the East Asia crisis—we may be called upon to resume lending support quickly. We are committed, therefore, to maintain a relationship with our middle-income clients, and we are exploring new financial instruments – such as the deferred draw-down option proposed by the Middle-Income Countries Task Force – to meet the changing needs of clients. The IBRD lending projections included in this SDP—\$8.5–\$12.0 billion for FY02—are based on the Bank’s continuing engagement in middle-income countries, recognizing that this will also entail inevitable volatility in the demand for IBRD lending. As in the low-income countries, the Bank is developing programmatic approaches to lending, for use where appropriate in light of country conditions, and in conjunction with selected well-targeted and high-impact projects. We are also increasingly involved in a dialogue with our clients about ways to better assist them in becoming more competitive in the global knowledge economy.

**10. The emphasis on higher quality and greater development impact of our products and services has changed the Bank’s unit costs.** Delivering new products and services and significantly changing the way we conduct our business, has improved the operational quality of our work and increased our overall development effectiveness. For example, quality of supervision increased from 63% in FY97 to 92% in FY00, and quality at entry improved from 69% in FY97 to 89% in FY00. However, achieving these gains has also changed the unit cost

of our deliverables. Recent work—the Compact Assessment, the Measurement of Products and Services,<sup>8</sup> and the Cost of Doing Business<sup>9</sup>—has given us a much better understanding of these costs. The bottom line is that the increased costs of our new and improved way of doing business have more than offset the cost savings we have achieved in other areas, such as increased efficiency in lending preparation and ESW. There are two areas in particular where we need to address changes in our cost structure:

11. *Sustaining and improving new poverty-focused approaches.* Experience clearly shows that country ownership and a participatory approach to development are key to poverty reduction. We will continue, therefore, to emphasize the participatory way of working (e.g., community-driven development)—in our lending programs, in developing country and sector assistance strategies, and in our knowledge-based and advisory services. This participatory process is particularly important for building capacity. The approach will be further reinforced in the poorest countries through client-owned PRSPs – which are instrumental in setting the countries’ own priorities for development. The International Development Goals will also help us to strengthen the PRSP process by providing a context for coordination among different stakeholders, by encouraging an outcome-oriented focus in measuring progress toward poverty reduction, and by engaging the client in setting country-level intermediate indicators for the Goals. Participatory processes and PRSPs have both required significant reallocation of resources. We have supported 32 interim and 4 full PRSPs to date—for which we earmarked \$13 million in FY01 funded entirely through redeployment and within the FY01 Compact Budget. We expect to work on supporting clients to complete another 30-40 interim and full PRSPs in FY02. This support work needs to be fully funded.

12. *Sustaining and improving operational quality.* While our key challenge will be to sustain the quality improvements we have made in the recent past, we will specifically target weaker performing areas, such as the sustainability of development outcomes and our work in countries with weak policies and institutions. We will extend quality monitoring to other deliverables such as knowledge management and capacity building, and we will develop and align instruments for monitoring and evaluating the impact of programmatic lending.

13. Enhanced compliance with safeguard and fiduciary policies has significantly contributed to the higher quality of our operations—and we will place particular emphasis on managing these going forward. We will do this together with our partners by harmonizing standards and policies with other donors and Multilateral Development Banks (MDBs)<sup>10</sup>. This will be a key area of focus and we have more work left to do. To further reduce transaction costs, we will continue to improve our internal processes by clarifying accountabilities, streamlining and expediting decision-making, eliminating distortions, and providing the right incentives to encourage appropriate risk management. We will also intensify our efforts to build borrower capacity to manage public expenditure, procurement, and financial management systems and environmental and social safeguards—which will lead to higher development impact in the medium term.

14. Our enhanced compliance with safeguard and fiduciary policies has been funded so far through redeployments within the Compact budget—in FY01 we provided a total of \$15 million. This is not sustainable. The Cost of Doing Business Task Force estimates that

---

<sup>8</sup> Measurement of Products and Services Task Force Report.

<sup>9</sup> Cost of Doing Business Task Force Report.

<sup>10</sup> Harmonization of Operational Policies, Procedures and Practices: Experience to Date, SecM2001-158, March 22, 2001.

significant additional funds will be required to enhance full compliance with our policies, and to provide related capacity-building services to our clients. Realistic funding levels for this work are not only critical to the Bank's performance, but also to help reduce costs to our borrowers over the medium-term.

15. **Meeting the resource challenge.** Experience in the first half of FY01 shows that cost pressures have severely tested the Bank's capacity to deliver. Our commitments and quality standards have been met largely through placing unsustainable burdens on our staff. Delivering fully on our planned commitments—a higher level of lending and non-lending services with the high-quality standards we now have in place – is not realistic within the FY01 budget envelope. To maintain the gains made under the Compact and to further improve our effectiveness requires both increased efficiency and additions in Bank resources. That said, it is also critical that we make tough choices—within the context of the framework for selectivity and priority-setting discussed below.

## **B. CLARIFYING CORPORATE PRIORITIES AND ACHIEVING ALIGNMENT AND SELECTIVITY**

16. ***Governance Structure and Criteria for Corporate Priorities.*** Based on constructive guidance received from the Board during the SFP consultation process, Management has clarified the criteria and governance structure for corporate priorities and is establishing mechanisms to resolve the tensions between “top-down” corporate objectives and “bottom-up” country programs. These actions will lead to greater focus, a consolidation of activities, and reduced staff stress. This will also enable a more systematic vetting and monitoring of corporate “initiatives” going forward. Since the Strategic Forum 2001, a Management Committee comprised of the President and MDs has been formed to provide the institutional oversight of the stock and flow of corporate priorities. The Management Committee has also endorsed a set of criteria against which future corporate initiatives and partnerships will be vetted. These criteria include: relevance, need, the Bank's comparative advantage, adequacy of resources, efficiency of benefits, and a positive authorizing environment.

17. Our preliminary framework for World Bank corporate priorities distinguishes between (i) *corporate advocacy priorities* and (ii) *global public goods priorities*. This framework (see Annex 4) was developed with the active involvement of the OVPs, and is now receiving wider staff consultation. Management intends to continue the work on corporate priorities by further elaborating specific Bank business lines under each priority, and by adopting the same monitoring and quality assurance standards that currently apply to country operations.

18. ***Corporate Advocacy Priorities*** are defined as the critical enablers of poverty reduction that the Bank is particularly well-qualified to champion by sharing knowledge (both research and experience) and building awareness with clients, development partners, and other stakeholders. An example is our role in raising the perceived importance of anti-corruption initiatives for poverty reduction through our research, country work, and communications outreach. Our advocacy priorities, which we have further specified through tentative business lines, reflect IDA replenishment mandates, the multidimensional nature of poverty, and the interdependencies among different International Development Goals.

**Table 1. Corporate Advocacy Priorities**

<b>Building the Climate for Investment, Jobs &amp; Sustainable Growth</b>	<b>Empowering Poor People to Participate in Development and Investing in Them</b>
<p><b>Investment Climate</b></p> <ul style="list-style-type: none"> <li>▪ Support for urban and rural development</li> <li>▪ Infrastructure services to support private sector development;</li> <li>▪ Regulatory reform and competition policy;</li> <li>▪ Financial sector reform.</li> </ul> <p><b>Public Sector Governance</b></p> <ul style="list-style-type: none"> <li>▪ Rule of Law (incl. anti-corruption);</li> <li>▪ Public administration and civil service reform (incl. public expenditure accountability);</li> <li>▪ Access to and administration of justice (judicial reform).</li> </ul>	<p><b>Empowerment, Security &amp; Social Inclusion</b></p> <ul style="list-style-type: none"> <li>▪ Gender mainstreaming; civic engagement and participation;</li> <li>▪ Social Risk Management (incl. risk mitigation).</li> </ul> <p><b>Education</b></p> <ul style="list-style-type: none"> <li>▪ Education for All – with emphasis on Girls’ Education;</li> <li>▪ Building human capacity for the knowledge economy</li> </ul> <p><b>Health</b></p> <ul style="list-style-type: none"> <li>▪ Access to clean water, air and sanitation by poor people;</li> <li>▪ Maternal and child healthcare.</li> </ul>

19. As shown in Table 1, our corporate advocacy priorities include and build on the two “interconnected pillars” of the SFP:

- (i) ***Building the Climate for Investment, Jobs, and Sustainable Growth.*** The *Investment Climate* advocacy priority recognizes that the primary engine of pro-poor growth is the private sector, and particularly poor people themselves. The Bank will play a key catalytic role in enhancing investor confidence and private investment (domestic and foreign) by supporting rural and urban development, development of effective infrastructure, regulatory reforms and competition policies, and by supporting financial sector reforms that promote stability, transparency, access, and competition. Closely related to this is *Public Sector Governance*, which emphasizes that accountable and effective governance at all levels is a critical enabler of economic growth and necessary for effective engagement of the private sector in development.
- (ii) ***Empowering Poor People to Participate in Development and Investing in Them.*** The Bank recognizes that the International Development Goals can only be achieved through the empowerment of poor people as participants rather than recipients of development. The *Empowerment, Security and Social Inclusion* priority provides further advocacy guidance, suggesting that engagement, participation, and security are important enablers and extenders of empowerment. Business lines under the *Education and Health* priorities highlight the Bank’s emphasis on access to education, knowledge, maternal and child health care, clean water and sanitation. Development experience tells us that these investments make an especially vital contribution to poverty reduction and socio-economic progress.

20. ***Global Priorities and Partnerships.*** The traditional system of official development aid is largely built around assistance to individual countries. Some of the most pressing development goals, however, are global public goods (GPGs) and require internationally coordinated efforts – given their externalities and spillover effects.<sup>11</sup> Our global mandate and

<sup>11</sup> See Annex 4. For a broader discussion of the rationale and relevance of GPGs, please see Global Development Finance 200’, February 23, 2001, SecM2001-0114

capacity to implement global programs at the country level is our comparative advantage. In order to be more effective, however, we need stronger alignment of global/corporate priorities with our country activities. The Bank’s GPG priority areas are consistent with those endorsed by The Development Committee in Prague.<sup>12</sup> Since then, we have identified tentative business lines *within* each GPG priority – as listed in Table 2. The next steps are to finalize these choices and develop concrete business plans for each.

**Table 2. Global Public Goods Priorities and Bank Business Lines**

<p><b>Communicable Diseases</b></p> <ul style="list-style-type: none"> <li>▪ HIV/AIDS, tuberculosis, malaria and childhood diseases, incl. the relevant link to education</li> <li>▪ Vaccines and drug development for major communicable diseases in developing countries</li> </ul>	<p><b>Information &amp; Knowledge.</b></p> <ul style="list-style-type: none"> <li>▪ Redressing the Digital Divide and equipping countries with the capacity to access knowledge;</li> <li>▪ Understanding development and poverty reduction</li> </ul>
<p><b>Environmental Commons</b></p> <ul style="list-style-type: none"> <li>▪ Climate change; water; forests;</li> <li>▪ Biodiversity, ozone depletion and land degradation;</li> <li>▪ Promotion of agricultural research</li> </ul>	<p><b>International Financial Architecture.</b></p> <ul style="list-style-type: none"> <li>▪ Development of international standards</li> <li>▪ Financial stability (incl. sound public debt management);</li> <li>▪ International accounting and legal framework</li> </ul>
<p><b>Trade and Integration</b></p> <ul style="list-style-type: none"> <li>▪ Market access;</li> <li>▪ Intellectual property rights and standards</li> </ul>	

21. ***Implications of the Corporate Priorities—Consolidation and Alignment.*** Clarifying our corporate (GPG and advocacy) priorities will allow us to become more selective and effective through closer integration of our research, training and anchor activities. For example, PSI and DEC are now jointly undertaking analytical work in the area of Investment Climate. Ongoing efforts at FSD, FPS, PREM and IFC – and at the IMF, OECD and MDBs – are being consolidated into a joint program on International Financial Architecture and Sovereign Debt Technical Assistance. PREM will focus on a more limited portfolio of issues: the Expanded Trade Agenda; International Financial Architecture; public sector governance; the HIPC initiative; poverty; gender and empowerment. Similarly, WBI will prioritize governance, capacity building, and the knowledge economy. Clearly communicating the specific areas of institutional emphasis – along with deliverables and accountabilities – will provide better guidance to staff, and improve our collaboration with clients and partners. Furthermore, through synergies between our corporate priorities and our core competencies, and between country and sectoral plans, the Bank will be in a stronger position to deliver on its dual strength of global reach and in-depth country knowledge. Specific actions are being taken to align corporate priorities and country programs:

- The role of Sector Boards and Country Teams will be strengthened to ensure closer mapping of global/corporate priorities in country programs within an enhanced matrix framework.

<sup>12</sup> Development Committee Communique, Prague, September 25, 2000. For background, see “Poverty Reduction and Global Public Goods: Issues for the World Bank in Supporting Global Collective Action,” DC/2000-16, September 6, 2000.

- Future Sector Strategy Papers<sup>13</sup> will reflect the thematic areas of the corporate priorities, and global/regional initiatives. Future SSPs will also include a medium-term business strategy with the skills, budget and cost implications for implementing.
- New CASs will also be reviewed through the lens of corporate priorities – and as a result, our portfolio of country programs will increasingly reflect these priorities. At the same time, formulation and evaluation of corporate priorities will be a dynamic process reflecting client feedback and evolving demand in regional operations. The RVPs and CDs will be accountable for incorporating in CASs and country budgets the corporate priorities relevant to their regional and country contexts.

**22. Practicing Selectivity Across Operations.** The SFP’s three-level framework for selectivity<sup>14</sup> (within countries, across countries, and global), and applying the corporate priorities (as described previously and as work progresses) will result in increased consolidation of our activities.

- ***Within countries***, our programs reflect client priorities, and our CASs are increasingly selective in the choice of instruments and the scope of Bank assistance. In line with the CDF principles of more strategic partnership among stakeholders, we are increasingly ceding leadership to our development partners (e.g., IMF, UN, MDBs, bilaterals, private sector and NGOs). Specific examples of how we are pursuing division of labor with our partners are provided in Annex 5. The SFP identified as the Bank’s strength its analytical capacity across multiple sectors needed to integrate development assistance (“diagnostic capacity”), combined with operational action on specific programs requiring in-depth sectoral experience and knowledge (“implementation capacity”). Our country programs draw on our core competencies, and we are now sharpening these to reflect more client demand and corporate priorities (see Annex 5). As part of this process, we are currently identifying activities/sub-sectors that will be de-emphasized over the next two years.
- ***Across countries***, our key criteria for selectivity are income, poverty, and performance. In line with this, the Bank will shift incremental resources to Sub-Saharan Africa and South Asia because the bulk of people earning under \$1/day are in these two regions. Within AFR we plan to channel incremental resources to high-performers and re-engaging countries, and to post-conflict countries. In poor performers, the focus will be on non-lending services to support the development of good policies. Within ECA and LAC, there will be redeployment towards the Region’s poorer countries that are ready to undertake reform. Within EAP, a significant increase in the allocation to IDA countries is planned in line with CAS commitments. Within MENA, we will allocate adequate funds to our “reactivating countries”.
- ***Global***. Some development challenges are of a global nature that need to draw on the Bank’s overall institutional capacity. Many of our global programs—often implemented through partnerships (e.g., CGIAR, InfoDev)—are designed to convey benefits shared worldwide. Our corporate priorities, and the business lines specified within each, will provide guidance on selectivity at the global level. In this context, we are vetting the Networks’ partnerships portfolio against the criteria of comparative advantage, strategic relevance and expected benefits. For example, PSI will

---

<sup>13</sup> Annex 4.

<sup>14</sup> Strategic Framework Paper, January 24, 2001.

increasingly focus on large global programs such as: PPIAF, FIAS, ESMAP, Water and Sanitation, Cities Alliance, CGAP and the Corporate Governance Forum. More generally, and as a result of this exercise, *it is estimated that the Bank will phase out from about a third of its current partnerships—permitting a deeper relationship with higher priority partners* (see Annex 4 for results of partnership vetting to date).

23. The experience and investments of the Compact have made us more relevant and proactive in an era of changing client needs and public expectations. At the same time, however, responding to the multitude of demands has greatly stretched our resources, our focus, and our managerial capacity. In recognition of this, and with the guidance of the Board, the Management Committee is taking the lead on setting corporate priorities and ensuring institutional selectivity.

### C. ENHANCING ORGANIZATIONAL EFFECTIVENESS

24. The efforts described in the previous sections will be underpinned by our continuing work to enhance organizational effectiveness. While these efforts continue on a broad front, there are two areas of strategic significance on which we will focus:

- Improving management and better support to staff; and
- Enabling better client services via improved technology.

25. **Improving management and better support to staff.** We can only achieve high development effectiveness by sustaining our professional and managerial excellence – attracting and retaining the best professionals and putting in place incentives and systems to ensure that they can be as effective as possible. We have made progress in modernizing our human resource policies and functions under the Compact. However, the budget pressures experienced during FY01 have led to extraordinary work pressures, resulting in a negative impact on our staff. High and uneven staff turnover has also been a cause of stress, especially the high level of redundancies in the past year. We are facing the risk of losing valuable staff to other organizations. In addition, staff learning/training expenses in the first half of FY01 fell by 40 percent compared with the same period in FY00.<sup>15</sup> Morale has been affected, as has staff/management cohesion. The work ongoing—to be more selective, better aligned, to reinvest in core operational areas, and to get more resources into the hands of front-line staff—will help to relieve these pressures.

26. As we look to the future, we will build on the achievements under the Compact and focus on the key areas requiring further work. The highest overall priority is to improve the quality of management, as the Compact Assessment showed. In addition to *managerial excellence*, we will focus on the following Human Resource “drivers”.

- *Strategic staffing*—ensuring that the Bank has the flexibility and the skills to meet evolving client needs
- *Decentralization* – building a truly global workforce and ensuring we get our best people where they are needed most.
- *Staff learning* – ensuring staff skills remain state of the art.

---

<sup>15</sup> “Mid-year Review of FY01 IBRD/IDA Work Programs and Budgets”, March 15, 2001.

- *Institutional culture* – including meaningful staff engagement on strategic issues.
- *Diversity* – moving from a sole focus on specific groups to ensuring that the organizational culture and working environment celebrates differences and allow all to succeed.

Some of these issues are highlighted below. Others will be covered in a comprehensive HR policy paper to be discussed with the Personnel Committee within this calendar year.

27. *More strategic approach to staffing and decentralization.* Staff skills will be further aligned with the strategic directions and business needs outlined in the SFP and in this document – for example, balancing technical depth with the integrative skills needed for CDF/PRSP, capacity building, and more programmatic approaches. We will take more systematic staffing approaches in closer coordination with Sector Boards; improve the existing tools for staff planning and monitoring (Dashboard and Peoplesoft); and coordinate staffing with our continuing efforts to enhance learning/training. We will also continue to balance carefully the strategic location of staff in alignment with country assistance strategies, business needs, and costs, with special attention to systematic approaches for better managing functions of Washington and country offices. We will also look into issues associated with the shift towards a “global staff” the employment framework, skill development, promotion, and mobility.

28. *Realigning Management/staff learning to business needs.* We are revamping our staff learning program to realign our knowledge, skills, and behaviors with changing needs. The emerging challenges of the post-Compact Bank require a shift in what and in how we learn. We need stronger behavioral and relationship skills at all levels—to work in the CDF/PRSP framework; cross-sectoral and integrative professional skills—to address our global public goods and corporate advocacy priorities; integration of knowledge-sharing and learning—to ensure that cutting-edge knowledge is disseminated in our products and services; and learning tools better suited to our organization—where 30 percent of staff are in the field and people want to learn on-the-job. Key measures in FY02-04 include: an enhanced management development system, including re-introduction of a core “managerial curriculum”; scaling up behavioral learning at all levels, including coaching and mentoring; increased learning support for high impact, cross-sectoral operational teams; development of an “operational curriculum” for staff, covering basic skills and knowledge in safeguard, fiduciary, trust fund management, and other core areas; and scaling up of e-learning for individual skills acquisition and more effective outreach to field staff.

29. *Strengthening cohesion between management and staff.* There is much work to be done to build a stronger internal partnership. While increased selectivity and better alignment of human and financial resources with our priorities will help, our challenges lie in strengthening our values—to foster openness, teamwork and trust. Again, there will be a focus on strengthening management, improving internal consultation and communication and focusing more on the right behavior at all levels. This will include an enhanced effort to re-establish more constructive working relations with the Staff Association. We will also plan to foster diversity further, moving from a sole focus on specific groups to ensuring that the organizational culture and working environment celebrates differences and allows all to succeed.

30. **Enabling better client service via improved technology.** We will continue to build on our technology platform. This is essential to increase our development effectiveness by

sharing critical information and knowledge across the world with staff, clients, and partners; and to improve our efficiency, in particular at the front line, through customizing and better packaging the information that underpins our operational work. Significant progress has been made to create an electronic business environment, including a standard computing system in every office through a global network that supports strategic location of work, a single warehouse of transactional data, and integrated enterprise systems for resource management. The challenge in the next three years is to build on this foundation. This will include development of an improved Internet platform for more participatory approaches, timely cost effective upgrading of computing power and network bandwidth, and continuing system enhancements to support our fast-changing business (e.g., e-learning and e-CAS).

#### **D. STRONGER ACCOUNTABILITY THROUGH IMPROVED RESOURCE AND PERFORMANCE MANAGEMENT**

31. The efforts described so far will be sustained by stronger *managerial accountability* through improved performance and resource management at all levels.

32. **Improvements in performance management.** The Corporate Scorecard, Quarterly Business Reviews (QBRs), the Dashboard, and the Quarterly Management Reports for the Board have already helped to improve performance management. The QBR process integrates the review of deliverables, and financial and human resources. It is based on uniform, consistent and up-to-date data contained in the Dashboard (which encompass deliverables, staffing, budgets and expenses). This provides a basis for timely and rapid decision-making, helps units to make clear entry/exit decisions in line with corporate priorities and client needs, and increases transparency of management accountabilities. Further improvements will include developing impact indicators for our country and sector strategies and better measurement of non-traditional products in operations and internal services—including more systematic use of benchmarking. We will use the Sector Strategy Papers and Corporate Scorecard more to track our performance with a longer-term comprehensive view as they relate to development effectiveness—including progress towards the International Development Goals. In particular, our focus will be on enhancing measurement of the Bank’s impact on the IDGs. We also propose to discuss these sectoral assessment and other cross-cutting themes with the Board on a regular basis. These efforts will enable us to monitor performance of the Bank’s engagements in more comprehensive and systematic manner, significantly enhancing managerial accountability.

33. **Improvements in resource management.** The new budget process involves defining Regional resources on a bottom-up basis through an increasingly thorough assessment of trade-offs and opportunities for redeployment, savings and efficiency gain—within a multi-year timeframe. In addition, an end to “internal charging” of staff time and to the practice of charging indirect costs to task budgets has already been announced. There is an ongoing review by Regional management of resource allocations between Country and Sector units, to achieve conformity with agreed priorities and to identify any potential deficits in sector units; and there will now be advance transfer of cross-support budget between units within and across VPUs. These measures will lead to increased productivity and transparency, help the matrix management system, and also will reduce staff insecurity (partly generated by the internal charging system). Procedures are being strengthened to ensure that no new initiatives are undertaken without adequate resources being identified—i.e., no more “unfunded

mandates”. This will require fully costing all strategies and initiatives and using a hierarchy of priorities to guide trade-offs.

34. In the area of *trust fund management*, a concerted effort is underway to further strengthen the control framework. Three major areas for improvement have been identified: a) ensuring greater visibility of trust funds in the Bank's resource planning and monitoring processes to ensure that these funds are subject to the same managerial oversight and accountability as the Bank's own resources; b) leveraging SAP to improve *ex ante* controls, extend status reporting, and enable better managerial oversight of the portfolio; and c) heightening awareness and accountability through revision of guidance and training. The Internal Auditing Department is undertaking special audits and compliance audits of some trust funds. In addition, the Bank has commissioned external auditors to conduct an independent review of the overall control framework for trust funds. This review is expected to point to significant changes in the compliance monitoring framework, including better integration of responsibilities across different organizational units in the Bank.

## Chapter 2: Financial Resources

---

35. Based on the strategic directions discussed above, this chapter presents the resource planning framework we are using to prepare this year's budget proposals. The three-year resource planning framework discussed here is based on Management's forward-looking assessment of the resources needed to adequately fund the Bank's operational commitments. The framework should not be considered as setting predetermined budget envelopes for the FY03-04 period. Rather, it provides the Board with indicative resource requirements for the outer years as the context for discussion of the Bank's strategic directions and the planned FY02 resource envelope. For FY03, the resource planning framework will also provide a useful reference point for discussions on future resource requirements between Management and the Board.

36. **Guiding Principles.** Management's proposals on the level and allocation of resources for FY02 will be governed by the following principles:

- ***financial prudence:*** in the context of the integrated resource planning framework—described in this paper—management has assessed the Bank's capital needs and alternative uses of income. Based on this assessment, Management has concluded that the overall FY02-04 resource envelopes, as indicated in this paper, represent a prudent use of the Bank's financial resources;
- ***selectivity:*** reprioritization of commitments to identify feasible redeployments;
- ***maximum leverage:*** the incremental resources required to deliver the program detailed in this paper will be explicitly focused on direct client services and to staff and managers on the operational front line; and
- ***no increase in overheads***—defined as the costs of management and administration.

### A. INTEGRATED APPROACH TO RESOURCE ANALYSIS

37. The Bank uses its income principally to meet administrative expenses, increase reserves and loan loss provisions to maintain capital adequacy, finance waivers of loan charges to borrowers, and make grants to leverage support of development activities. The administrative budget envelope, therefore, should be discussed within the context of projected income and assumptions about other uses of the Bank's available financial resources over a multiyear horizon. Many of the current estimates of expected uses are preliminary. But as we move forward, toward the end of the fiscal year, net income allocation decisions will need to be made and will be based on more firm data together with Management's recommendations. At this time, Management's assessment of the broader financial context is that the planned FY02-04 resource envelopes described below represent a prudent use of the Bank's financial resources for meeting its business needs.

38. **Resource Planning Framework for FY02-04.** The integrated resource planning framework shown in Table 3 presents all resource allocations in the context of available gross income and competing uses. It should be noted that in Table 3, the administrative budgets for FY02-04 include a *notional* inflation adjustment of 3% per annum for FY02-04 (but *exclude* the

planned real increases discussed in Section B of this chapter). The actual inflation adjustment for FY02 will be included in the FY02 Budget Document. The framework presented in Table 3 allows Management and the Board to view the trade-offs between real increases in the administrative budget and other uses of resources, within a given level of income.

**Table 3: Resource Planning Framework FY02-04**

(\$ million)

	Actual		Projected		
	FY00	FY01	FY02	FY03	FY04
<b>IBRD Gross Income</b> <sup>1/</sup>	<b>3,163</b>	<b>3,097</b>	<b>3,134</b>	<b>3,088</b>	<b>3,006</b>
<b>Committed Uses</b>	<b>1,518</b>	<b>1,648</b>	<b>1,503</b>	<b>1,427</b>	<b>1,209</b>
Loan Loss Provision	(166)	348	203	127	(91)
Reserves <sup>2/</sup>	1,114	750	750	750	750
IDA & HIPC <sup>2/</sup>	570	550	550	550	550
<b>Available for Other Uses</b>	<b>1,645</b>	<b>1,449</b>	<b>1,631</b>	<b>1,661</b>	<b>1,797</b>
<b>Baseline Uses</b>	<b>1,599</b>	<b>1,529</b>	<b>1,511</b>	<b>1,551</b>	<b>1,592</b>
Development Grant Facility <sup>3/</sup>	126	149 <sup>4/</sup>	177	177	177
PACT and Other <sup>3/</sup>	95	30	0	0	0
IBRD/IDA Budget	1,378	1,350 <sup>5/</sup>	1,334 <sup>6/</sup>	1,374 <sup>6/</sup>	1,415 <sup>6/</sup>
<b>Remaining Available</b>	<b>46</b>	<b>(80)</b>	<b>120</b>	<b>110</b>	<b>205</b>
<b>Balance in Surplus</b> <sup>7/</sup>	<b>131</b>	<b>51</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Memo:</b>					
IDA share of IBRD/IDA budget <sup>8/</sup>	549	540	533	549	565
IBRD net disbursement projection	2,934	3,933	2,706	(273)	(3,416)
IBRD gross disbursement projection	13,332	13,624	13,371	12,275	10,539
IBRD commitments projection	10,919	12,000	12,000	12,000	12,000
Equity to loans ratio <sup>9/</sup>	21.2%	21.3%	21.5%	22.3%	23.6%

1/ Net of interest expenses and waivers and including IDA reimbursement of its share of IBRD/IDA administrative budget.

2/ Amounts for FY01-04 are indicative only.

3/ Based on a July 2000 Board decision DGF includes \$30 million for PACT from FY02 onward.

4/ Includes DGF FY00 carryover of \$2 million.

5/ Includes FY00 carryover of \$55 million.

6/ FY02-04 budgets reflect a notional price adjustment of 3% p.a., and exclude the real budget increases discussed in Section B of this chapter.

7/ Balance for FY02-04 depends on future allocation from available funds.

8/ IDA share for FY01-04 projected at 40% (Actual for FY00).

9/ At end of fiscal year after transfer to reserves.

39. In Table 3, gross income in FY01-04 is projected to be lower than in FY00, largely because of lower interest rates and an assumption—for planning purposes—that loan charge waivers are maintained at the increased level set in FY01. The “committed uses” shown in Table 3 reflect indicative allocations of resources for prudential purposes (reserves and loan loss provisions) and assumed allocations to IDA and HIPC in line with recent experience. While these resources are not formally committed, they are considered effectively committed in the absence of a large credit or demand shock.

40. Allocations to committed uses are projected to decline over FY02-04 because current lending projections suggest negative net disbursements in FY03 and FY04, which indicates a reduced need for loan loss provisions. These provisions are determined just before the end of each fiscal year, when Management estimates the additional amounts needed to cover expected losses from non-accrual events, taking into account changes in the credit quality of

the loan portfolio and net disbursements. The allocation to reserves at end-FY01 will depend on the expected size and credit quality of the loan portfolio. Analysis at the end of FY00 suggested that an allocation of \$750 million per annum would be adequate. This estimate, extrapolated through FY04, is reflected in Table 3. Annex 6 provides a further discussion of the key assumptions underpinning the FY02-04 income projections.

41. The planning framework shown in Table 3 also reflects the following considerations:

- Following the increase in the DGF in FY01, no increase is projected for FY02-04. It is Management's view that the prioritization exercise for partnerships should allow the Bank to play a stronger role in global issues within the current envelope.
- The projections in Table 3 do not include an indicative amount for *other grants* (such as those for Kosovo, West Bank & Gaza, and FRY), but experience suggests that it would be reasonable to expect these demands to arise.
- It would also be desirable to replenish the *surplus* over time to provide a cushion allowing greater flexibility going forward. Decisions on such replenishments would need to be taken at the end of each fiscal year.

42. **Risks and uncertainties.** The resource planning framework shown in Table 3 is subject to a number of risks and uncertainties, ranging from movements in interest rates and exchange rates to changes in the credit quality of the loan portfolio. On balance, while there are factors that could lead to an increase in gross income and/or a reduction in the level of committed uses, the balance of risk is, at present, on the downside. As noted above, allocations to reserves and loan loss provisions will be affected by changes in the credit quality of the loan portfolio and changes in loan demand. Annex 6 provides some indicative figures for the magnitude of the potential impact of changes in these parameters.

## **B. ADMINISTRATIVE BUDGETS FOR FY02-04**

43. Given the limited resources available over the next three years and the risks and uncertainties discussed above, allocating resources requires difficult choices, particularly in the context of current budget pressures. Against the above background, and even with continuing efforts to be more cost-effective, Management's view is that a real increase in the administrative budget—as discussed below—represents an appropriate level of reinvestment in the Bank's business, given its current commitments and possible redeployments and savings.

44. **Operational Context for FY01 Resource Decisions** As discussed in Chapter 1, the Bank has returned to the FY97 level of administrative budget in real terms in FY01 – translating into a reduction of \$57 million (in FY01 dollars). This led Management to make a number of difficult choices in allocating resources in order to conform to our Compact commitment<sup>16</sup>:

- High priority institutional programs such as PRSPs, FSAPs, HIPC, safeguard and fiduciary tasks, and the Global Distance Learning Network, as well as the cost of staff separations, were funded at a cost of nearly \$80 million. These cost pressures were not envisaged in setting the Compact budget envelope for FY01;

---

<sup>16</sup> Strategic Directions Paper FY01-03 and FY01 Budget Document.

- The overall Regional resource envelope was held down at the FY97 level in real terms;
- Resource redeployments were made from existing programs to meet the resulting funding requirements.

45. The redeployments involved scaling back and deferring some operational programs with high development impact, e.g., ESW, constrained funding for research, knowledge management activities, and staff learning and development. The FY01 decisions also took into account the impact of cost pressures deriving from overall quality improvement efforts. As expected by Management, these decisions have created unprecedented budget tightness in FY01, as described in Chapter 1.

46. Experience in the first half of FY01 indicates that while the quality enhancements realized by end-FY00 are being maintained, ESW deliveries have declined compared with the first half of FY00, partly due to the redeployment of resources to other operational work, notably PRSPs and HIPC work. While lending delivery at the midpoint of FY01 is on track, there are concerns that resources are being focused more on delivery of the current year's lending and, as a result, investment in the project pipeline for delivery in future years may be inadequate. Staff learning expenditures to date in FY01 have fallen sharply compared with the same period in FY00. And staff overtime and resulting stress have risen.

47. These budget pressures in FY01 were partly offset by the availability of substantial FY00 carryovers (\$32 million, excluding the NSA carryover of \$16 million). But with the expiry of NSA and the tight budget situation in FY01, carryovers of this magnitude are unlikely to be available going into FY02. Also, trust funds are an important source of financing for Bank-supported technical assistance, and while total contributions from external donors have remained relatively steady, some sources are declining. This could create further budgetary pressure over the period FY02-04.<sup>17</sup> The bottom line is that despite Management's concerted efforts, the FY01 resource envelope is too tight to meet planned operational commitments and sustain the gains in development effectiveness achieved under the Compact.

48. **Continuing to maximize efficiency and cost-effectiveness.** Given the tight resource environment, the Bank will continue to place special emphasis on managing cost-effectiveness in order to leverage available funding for increased investment in client services. Specifically, management is committed to holding down administrative overheads<sup>18</sup> at or below current levels and tightly constraining the growth of indirect costs (e.g., space). Regions will be accountable for ensuring that the incremental resources substantially move to the task level. Flexibility of units' cost structure will continue to be enhanced through constraining international staffing levels and, where feasible, increasing the national staff complement in country offices. In line with these directions, several units are taking steps to reduce the number of managers, consolidate country management and sector units, centralize resource management staff, and reduce travel, space, communications and information technology costs. Process simplification driven by budget process reform is also expected to generate efficiency gains across the Bank. Cost-efficiency in the FAC units will continue to be assessed through benchmarking. Results of the above cost-effectiveness and efficiency improvement measures will continue to be closely monitored through the quarterly business reviews by the Managing Directors and Vice Presidents.

---

<sup>17</sup> Trust fund disbursements for Bank operational and partnership activities amount to about 12% of the total resources of operational units.

<sup>18</sup> These represent the costs of management and administration.

49. **Business Planning for FY02-04.** Within that context and cognizant of the budget pressures we are facing, the resource requirements for FY02-04 were developed through a strategy and business planning process that required careful reprioritization of our commitments and redeployment of resources. Institutional commitments were reviewed to determine their relative priority for funding. Units have developed business plans for FY02-04 with a focus on aligning their strategy with the themes emerging from the SFP and allocating resources based on a thorough assessment of trade-offs and opportunities for redeployments, savings and efficiency gains. As part of this process, Regions are carrying out a detailed costing of their CAS-driven country work programs.

50. Against the above background, management has formulated a net administrative budget framework for FY02-04 with a phased increase (in real terms) over FY01—\$90 million in FY02, an additional \$30 million in FY03, and no change in FY04.<sup>19</sup> The indicative distribution of the FY02 increase is shown in Table 4. Management believes that this level of resources is required to meet our business needs as outlined in Chapter 1 and further discussed below.

**Table 4: Indicative Distribution of Planned Real Budget Increase**

(FY01 \$ million)

Area	FY02 Increase	Explanation
Knowledge-based services	35	More knowledge-based products (ESW , including FSAPs, and research)
Lending Preparation	20	Increase in lending levels and costs (including safeguards and participation)
Lending Supervision	20	Higher costs (including safeguards and participation)
Country Program Support	5	JSAs/PRSPs/disclosure
Learning	5	Professional/management training
Technology Systems	5	Information systems
<b>Total Real Increase</b>	<b>90</b>	

- (i) **Knowledge-based services:** We will rebuild our analytic base of country knowledge (primarily ESW and research) to compensate for recent under-investments in this area and expand our fiduciary products, while sustaining the quality improvements achieved in FY00. The planned real budget increase of \$35 million (Table 4) is embedded in our increase of about 30% in ESW funding over the FY01 planned expenditures. ESW activities will continue to underpin our policy dialogue with borrowers (including JSAs/PRSPs) and ensure a sound analytic base for increasing programmatic lending, where applicable. As indicated in Table 5, ESW outputs are planned to increase substantially in FY02-04 from the FY01 level; this increase also reflects the recommendations of the Middle Income Countries Task Force. Unit costs of ESW products are planned to increase by about 8 percent each year over the FY01 level because of the change in mix toward more expensive products (e.g. PERs). Resources devoted to research, including applied research in the Regions and Network Anchors, are also planned to increase to support realignment of the program with corporate priorities.

<sup>19</sup> Based on IBRD/IDA actual shares in FY00, these increases are projected to be shared 60% for IBRD and 40% for IDA.

Expansion of work is planned in the areas of the International Development Goals, basic service delivery within countries (to provide the analytic basis for the 2003 WDR), social inclusion and empowerment, trade integration and investment climate. The planned increase in FY02-04 resources will partly offset the decline in the level of research funding since FY93.

- (ii) **Lending preparation:** The planned increase in resources in Tables 4 and 5 (\$20 million for new lending in FY02 which is about 16 percent of FY01 planned expenditure of \$125 million) will finance the expected increase in lending for low-income borrowers. IDA-12 lending in Sub-Saharan Africa (including increased lending for HIV/AIDS) and South Asia will be scaled up. IDA lending in FY02-04 is planned to reach a level of \$7 billion, compared with the FY01 budget forecast of \$5.8 billion and current FY01 estimate of \$5.5-6.5 billion. IBRD lending is projected to be roughly stable, with a modest upside in the high case, at \$8.5-12 billion compared with the FY01 budget forecast of \$9-12 billion current FY01 estimate of \$8.5-10 billion (Table 5). These lending range projections are subject to considerable uncertainty depending on country and global developments. Also, Regions will focus on strengthening the pipeline for FY03 and FY04. Average completion costs are expected to rise slightly above the current FY01 estimate due to the increasing emphasis on compliance with safeguard and fiduciary standards. The mix of investment and programmatic lending will hinge on the institutional capacity of individual countries and sectors, as well as on the extent to which they meet the necessary fiduciary conditions for programmatic lending. Overall, Bank resources (in terms of both absolute amount and percentage of total resources) devoted to work programs in low income countries are expected to rise in FY02-04 compared with the current level.
- (iii) **Lending supervision:** Strengthening of supervision will require adequately funding the costs of compliance with current safeguard and fiduciary requirements and sustaining the emphasis on portfolio quality. The planned budget increase of \$20 million (Table 4) is 11 percent of the FY01 planned expenditure of \$175 million. To the extent there are shifts in some Regions from project lending to programmatic lending, the costs of supervision will increase due to increasing complexity of the portfolio. While the size of the supervision portfolio will decline slightly below the FY01 level, the supervision effort per project is expected to rise by about 18 percent over the current FY01 estimate, due primarily to enhanced compliance with safeguards and greater participation (Table 5).
- (iv) **Country program support:** Costs of JSAs/PRSPs will need to be funded in line with FY01 experience, which indicates that this work is somewhat more costly than estimates made at the time of FY01 budget preparation. The Bank's monitoring, evaluation and disclosure practices will be strengthened through a modest incremental investment of about \$2 million.
- (v) **Learning:** Resources will be provided for staff learning to improve the quality of management at all levels and revamp our staff learning program to realign our knowledge, skills, and behaviors with changing needs.
- (vi) **Technology systems:** Incremental funding will be needed for building on the existing platform to improve our efficiency and responding to changing needs of clients, staff and partners.

51. Based on this proposed allocation of the additional budget, the Bank will be able to deliver a significantly strengthened work program as shown in Table 5.

**Table 5: Indicative Regional Deliverables and Performance Indicators FY97-04**

Indicators	Actual			Estimate	SDP		
	FY98	FY99	FY00	FY01	FY02	FY03	FY04
<b>Development Effectiveness</b>							
Quality at Entry <i>a/</i>	82%	86%	89%	90%	90%	90%	90%
Quality of Supervision <i>b/</i>	76%	82%	92%	90%	90%	90%	90%
Quality of ESW <i>c/</i>	72%	73%	86%	90%	90%	90%	90%
<b>Main Deliverables <i>d/</i></b>							
<i>Lending Services</i>							
IBRD/IDA Commitments (\$ billion)	28.6	29.2	15.3	14.0-16.5	14.0-19.0	14.0-19.0	14.0-19.0
IBRD Commitments (\$ billion)	21.1	22.2	10.9	8.5-10.0	8.5-12.0	8.5-12.0	8.5-12.0
IDA Commitments (\$ billion)	7.5	7.0	4.4	5.5 - 6.5	5.5 - 7.0	5.5 - 7.0	5.5 - 7.0
Number of Loans:	288	282	235	192-241	210-265	204-258	204-258
of which IBRD/IDA	286	279	223	180-225	200-250	200-250	200-250
Special Funding (Kosovo, E.Timor, WBG)	2	3	12	12-16	10-15	4-8	4-8
<i>Portfolio Management</i>							
Number of Projects under Supervision (including Special Funding)	1,817	1,810	1,762	1,740-1,770	1,720-1,750	1,710-1,740	1,700-1,730
<i>Non-lending Services</i>							
Poverty Reduction Strategies (JSA/PRSP & JSA/I-PRSP) <i>e/</i>			8	30-40	30-40	20-30	25-35
Country Assistance Strategies (CAS) and CAS-like products <i>f/</i>	41	33	35	35-40	30-35	30-35	30-35
Highly Indebted Country Programs (HIPC) <i>g/</i>			14	30-37	10-22	10-22	6-12
Economic and Sector Work Products (ESW) <i>h/</i>	294	393	309	250-300	325-375	375-425	375-425
of which:							
Financial Sector Assessment Programs			12	20-24	24-30	24-27	24-27
Public Expenditure and Fiduciary <i>i/</i>	n.a.	n.a.	36	37-55	60-75	60-75	60-75
Public Expenditure Reviews	n.a.	19	16	14-20	20-25	20-25	20-25
Country Financial Accountability Assessments	19	14	5	15-20	20-25	20-25	20-25
Country Procurement Assessment Reviews	2	7	15	8-15	20-25	20-25	20-25
Sector Strategy Papers		1	6	3	5-7	2-4	2-4
<b>Unit Costs (\$'000) <i>i/</i></b>							
Lending Completion Costs	326	270	286	320	330-350	350-370	350-370
Supervision Effort per Project	58	60	73	72	80-85	80-85	80-85
ESW: Average Completion Cost	105	91	117	131	140-160	155-175	155-175
JSA/PRSP & JSA/I-PRSP: Average Completion Cost				270-300	290-320	310-340	310-340
CAS: Average Cost/Country Assistance Strategy (includes updates)	132	143	145	130-150	140-160	155-175	155-175

*a/* Percent of approved projects during the calendar year (i.e. FY00 = CY99) with satisfactory or better quality at entry.

*b/* Percent of projects under implementation with satisfactory ratings on supervision, per QAG's annual review.

*c/* Percent of ESW products delivered during the year with satisfactory ratings, per QAG's annual review (by number of tasks reviewed).

*d/* These ranges do not necessarily equal the sum of Regional submissions. Rather they are a conservative aggregation, reflecting the degree of uncertainty and volatility at the country level.

*e/* These estimates are in some cases highly tentative and are all subject to change. PRSPs and Interim PRSPs are prepared by the countries and necessarily reflect the countries' own circumstances and decisions. Estimated delivery schedules assume that the countries' Fund- and Bank-supported programs remain on track, and, where applicable, understandings on new programs are reached without major interruptions. Experience indicates, however, that some projected PRSP and Interim PRSP schedules will likely slip, and that the timing of new programs in particular can be subject to significant delays.

*f/* Includes Progress Reports and TSSs/ISSs.

*g/* Includes Decision Points and Completion Points.

*h/* Includes Poverty Assessments, Public Expenditure Reviews, Country Economic Memorandums, Fiduciary Assessments, Diagnostic Reports, Conferences, Workshops, Policy Notes.

*i/* In some cases, an integrated fiduciary assessment will be carried out, pulling together the country financial accountability assessment and the country procurement assessment review (CPAR), along with analysis from relevant portions of the public expenditure review. Financial accountability assessments include Country Profiles of Financial Accountability (CPFAs) and Country Financial Accountability Assessments (CFAAs). CPFAs were introduced in FY97. Beginning in FY01, most financial accountability assessment work has taken the form of the more detailed CFAAs, whose number has started rising significantly in FY01.

*j/* Direct costs. FY98-00 in nominal dollars, FY01-04 in FY01 dollars.

52. **Indicative Allocations to Regions, Network Anchors and FAC Units.** Management’s decisions on resource allocations to units, within the total Bank resource framework discussed in this paper, will be based on criteria that emphasize: (i) alignment with corporate and country priorities; (ii) realism of planned FY02 deliverables; and (iii) effectiveness, efficiency and flexibility in use of resources. The FY02 unit work programs, deliverables, and resource envelopes for FY02, and indicative budgets for FY03-04 resulting from this process, will be included in the FY02, Budget Document to be issued in May 2001. Some preliminary allocations are shown in Table 6.

- At this time, the indicative resource allocation to the *Regions* in FY02-04 is \$65-75 million above the FY97 and FY01 compact levels. The Regions will thus receive 75-80% of the total planned FY02 budget increase of \$90 million.
- *Network Anchors and other operational units’* budgets are projected to increase by \$10-15 million over the FY01 compact level, to fund expanded sector strategy formulation and upstream analytic work in support of Regional work programs, and to partially offset the real decline in research funding since FY97, and to support realignment of the program with corporate priorities. As outlined in Chapter 1, there will be a strong focus on global public goods issues such as communicable diseases, environmental commons and economic governance/international financial architecture. In the area of corporate advocacy priorities, work will be expanded on empowerment, security and social inclusion, gender issues, education and health. Work is also planned, drawing lessons from the financial crisis experience, on addressing financial sector vulnerabilities in systemically important countries. Management will focus on developing more and better metrics for assessing the performance of these units.
- *The FAC units’* budgets are planned to be held at the FY01 compact level except for some technology enhancements (about \$5 million) discussed above. Within this stable FAC budget envelope, Management will continue to accord high priority to protecting the resources devoted to fiduciary programs in TRE and CTR.

**Table 6: Administrative Budget Trends FY97-04**

(FY01 \$ million)

<b>Administrative Programs</b>	<b>FY97 Budget</b>	<b>FY01 Budget</b>	<b>FY02 Plan</b>	<b>FY03/04 Plan</b>
Operational Programs	888.8	937.5	1015-1030	1045-1060
Finance, Admin and Corporate Programs	318.3	317.4	320-325	320-325
Centrally Managed Accounts	254.5 <sup>1/</sup>	77.5	80	80
Reimbursements and Fee Income	(105)	(121)	(120)	(120)
<b>Net Admin. Budget (excl. Carryovers)</b>	<b>1356.2</b>	<b>1211.1</b>	<b>1295-1315</b>	<b>1325-1345</b>
DGF <sup>2/</sup>	120.3	146.9	177	177
Board, Sec and OED	81.3	84.2	84	84
Total Administrative Budget	1557.8	1442.2	1556-1576	1586-1606

1/ Includes retirement plan contributions of \$145 million.  
2/ Based on a July 2000 Board decision DGF includes \$30 million for PACT from FY02 onward.

53. **Next Steps.** This paper presents the case for adequately resourcing the different--and better--Bank that has emerged from the Compact. The indicated resource levels will enable us to make continued progress in the quality and quantity of our efforts. At the same time, Management is further prioritizing institutional commitments, and will strengthen accountability for performance and efficient resource use. These commitments, together with the planned increase in resources in FY02-04, will allow us to meet our objective of eliminating unfunded mandates-- and thus relieving pressures on our staff -- and ensuring that our clients benefit the most from the use of our limited resources.

54. Consultations with the Board are an integral element of this process. In this context, Management's dialogue with the Board on the implementation of the Bank's strategic framework and resource requirements will continue with this paper. In addition, Management will prepare a time-bound action plan for addressing the major challenges identified in the Compact Assessment – and this will be shared with the Board in the course of the discussion of this paper. Dialogue will continue through the June 2001 Board review of the proposed FY02 work programs and budget proposals, as contained in the Budget Document.

## Annex 1: Strategic Framework Paper - Key Messages

---

1. **Mission.** Our mission is to fight poverty. The *international development goals* provide a frame of reference for our efforts. Since the goals are endorsed by the entire international community, we will align our efforts with partners to achieve them.
2. **Approach.** Our primary focus will continue to be at the country level--helping poor people to lift themselves out of poverty. We will also help to address regional and global issues such as environmental threats and communicable diseases. We will provide finance, knowledge and advice, and our mix of instruments will depend on the challenges facing each country. We will emphasize our catalytic and convening role, and work with our partners to leverage development effectiveness.
3. **Focus.** We will implement our *framework of selectivity* to maximize the impact on poverty reduction:
  - *within countries*--using the principles of the Comprehensive Development Framework (CDF) to guide our country strategies and division of labor with our partners;
  - *across countries*--we will use performance criteria to guide our efforts, focusing on countries where the policy environment is conducive to aid effectiveness, and build capacity to help poor performers become good performers; and
  - *for global programs*--our involvement will be clearly linked to our institutional objectives and country work, where we can catalyze efforts by others, and with clear understanding of resources and risks.
4. **Competencies.** Being able to assess a country's overall development priorities is central to our role. We will maintain *diagnostic* capacity across a multiplicity of sectors, but be selective where we offer direct *implementation* assistance. The depth of our involvement will vary according country circumstances and change over time.
5. **Key Pillars.** Two inter-related pillars will underpin our priorities in the fight against poverty. Both embody capacity building and are based on the lessons of development experience:
  - *Building the Climate for Investment, Jobs, and Sustainable Growth*
  - *Empowering Poor People to Participate in Development and Investing in Them*
6. **Instruments.** Building upon our current approaches, there will be an increasing focus on:
  - *knowledge, advisory services, and capacity building*--to support lending and as stand-alone;
  - *a programmatic approach*--based on strong country ownership of projects and programs;
  - *high-impact projects*--with emphasis on scaling up, replicability and demonstration effect.
7. **Implementation.** Going forward, we will emphasize:
  - *corporate priorities*--clarify and align with our resources;
  - *performance measurement*--strengthen and link to international development goals;
  - *organizational culture*--align with poverty-focus, client-orientation, and accountability.

## **Annex 2: The Role of the IDGs in World Bank Strategy**

---

1. The international development goals frame the World Bank's strategy as presented in the strategic framework paper. Aligning the Bank's work more closely with the goals reinforces our current strategy and helps to sharpen our focus on poverty reduction. Externally, it ensures alignment with global priorities and the efforts of our development partners and internally it aligns country strategies and operations with research, evaluation.

2. The multidimensional nature of the goals reflects a comprehensive approach to development. Moreover, the goals provide a results-based framework for assessing development impact. The emphasis must therefore be on the types of policy interventions which lead to the desired outcomes, rather than an input-based or narrow sectoral focus. And because they are based on quantifiable measures, they help to make clearer the costs and the trade-offs facing countries and donors.

- The first International Development Goal is to reduce the number of people living in extreme poverty. Broad-based economic growth is one of the best ways to achieve this objective and this implies a comprehensive approach to development.
- The other six goals focus on education, health, gender equality and environment. Meeting these goals will also require expenditures in other sectors, for example in governance and institution/capacity building, in potable water, sanitation and other infrastructure.
- The particular targets selected to measure progress toward the goals are highly correlated with other measures of development, such as the infant and child mortality rate, so they serve as a guides for determining economic and social progress.
- By quantifying development progress, the goals present an opportunity to focus on the effectiveness of different interventions and, over time, to allocate national, international and the Bank's own resources more effectively and to link these improvements to policy and other reforms. A significant research and analytic effort is required to ensure we intervene effectively to maximize our development impact in attaining the goals.
- The goals are ambitious and not all may be achieved within the announced time frames. Different countries may also assign a different prioritization to the various goals and their achievement depends crucially on the concerted effort by numerous global and local partners. Deep collaboration and the careful consideration of our own and others' expectations is vital to ensure the implementation of the goals enhances our own, as well as our development partners effectiveness.

## The IDGs, Indicators and Progress towards them

- 1** Reduce the proportion of people living in extreme poverty by half between 1990 and 2015

Indicators: Incidence of extreme poverty: people living on less than \$1 per day  
 Poverty gap ratio: incidence times depth of poverty  
 Inequality: Poorest fifth's share of national consumption  
 Child malnutrition: % of children under 5 who are underweight

As growth increased globally in the mid-1990s, poverty rates fell—rapidly in Asia, but little or not at all in Africa. Income inequality persists in LAC.
- 2** Enroll all children in primary school by 2015

Indicators: Net enrolment in primary education, literacy rate of 15 to 24 year  
 Olds, completion of 4th grade of primary education

Enrolment rates continue to rise, but not fast enough. On current trends, more than 100 million school-age children will not be in school in 2015.
- 3** Make progress towards gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2005

Indicators: Ratio of girls to boys in primary and secondary education  
 Ratio of literate females to males (15 to 24 year-olds)

The gender gap may be narrowing, but girls' enrolments remain persistently behind those of boys.
- 4** Reduce infant and child mortality rates by two-thirds between 1990 and 2015

Indicators: Infant mortality rate, under-5 mortality rate

For every country that cut infant and under-5 child mortality rates fast enough to reach the goal, 10 lagged behind—and another one moved backwards, often because of HIV/AIDS.
- 5** Reduce maternal mortality ratios by three-quarters between 1990 and 2015

Indicators: Maternal mortality ratio, births attended by skilled health worker

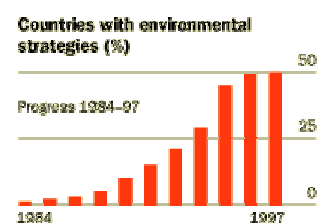
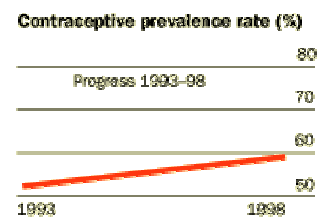
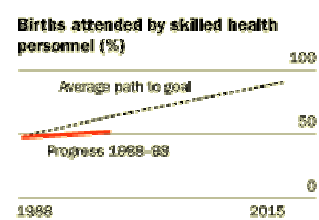
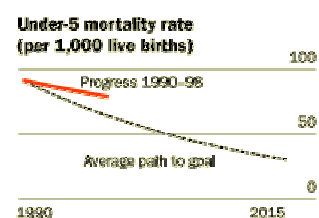
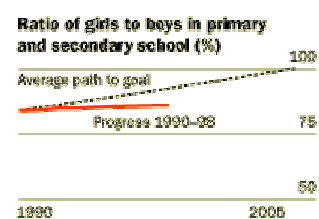
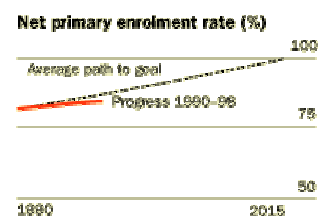
Skilled care during pregnancy and delivery can do much to avoid many of the half million maternal deaths each year. But the proportion of births attended by skilled personnel rose slowly in the 1990s.
- 6** Provide access for all who need reproductive health services by 2015

Indicators: Contraceptive prevalence rate  
 HIV prevalence in 15 to 24 year-old pregnant women

Contraceptive use is one indicator of access to reproductive health. The rate of contraceptive use is rising in all regions.
- 7** Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015

Indicators: Still being discussed, to include processes for sustainable development, population with access to water, forest area as percent of national surface area, biodiversity (protected land area), energy efficiency (GDP per unit of energy use), carbon dioxide emissions per capita

Despite their commitments at the Rio Earth Summit in 1992, fewer than half the world's countries have adopted strategies, and even fewer are implementing them.



## Shaping the Bank's agenda

3. Aligning the Bank's work with the goals implies changes in emphasis in the Bank's development agenda. While the overall direction of the Bank's work will continue to be driven by our clients' objectives, the Bank must be prepared to respond to their needs and those of our development partners. Important areas of concern are:

- **Monitoring progress and statistical capacity building.** The focus of the PRSPs on monitorable targets has already highlighted the need for improvements in statistical systems and in the ability of policy makers to make use of statistical information. Monitoring progress on the IDGs will call for additional work to raise the standards of statistical reporting. The Bank is already coordinating its work on statistical capacity building through the PARIS21 consortium and has established a trust fund to provide resources for capacity building initiatives.
- **Research and policy work.** The Bank is expected to play a leading role in understanding how to achieve the goals. This requires basic research into the interaction between economic growth, education, health systems, and natural resources. It also requires a better understanding of how to deliver services effectively.
- **PRSPs and CAS.** As the Bank develops its business plans through the CAS process, it will be important to have a better understanding of how to align the IDGs with the countries' PRSP targets. This implies a thorough understanding of how multiple intermediate goals contribute to the long-term goals of the IDGs and a realistic assessment of countries' development plans in terms of costs and achievability.
- **Advocacy, collaboration, and global monitoring.** The international consensus around the IDGs and the parallel goals of the UN Millennium Declaration provides a new opportunity for coordinating our efforts with other agencies. The Bank's commitment to the IDGs implies a commitment to reporting on progress, which should be done in conjunction with other partners. The IDGs also provide a basis for discussing resource needs and improvements to the development climate with donor countries. Finally they can play an important role in the Bank external communications strategy.

## **Annex 3: Rebuilding and Investing in Economic and Sector Work**

---

1. Economic and sector work (ESW) is the Bank's primary country-based analytic and advisory business line. From its earliest days, the Bank recognized the need to underpin its country dialogue and operations with solid knowledge about the country situation, its development challenges, and options to address them; thus ESW has long been an important part of the Bank's operational work. ESW is a country-based program defined by country teams in the context of the CAS and in consultation with country clients and other development partners. ESW products are not simply documents delivered to counterparts, but policy dialogue exercises with client countries. ESW underpins the Bank's overall policy dialogue, Country Assistance Strategies, technical assistance, and lending programs, enhancing aid effectiveness and project quality.<sup>20</sup> It informs the Country Policy and Institutional Assessment (CPIA) process, used in IDA allocations. In some cases, ESW is a more effective tool than lending to meet CAS objectives, and CASs have begun to more systematically review the ESW program and its goals.

2. **ESW Products.** ESW products include reports, policy notes, workshops, and conferences, as well as programs of analytic outputs, consultations, and advisory work. A recent report classified ESW into three categories.<sup>21</sup> Some ESW products are core assessments (often called due diligence products) necessary to underpin the analysis for the Bank's country assistance strategy and overall policy dialogue in all countries. Other diagnostic ESW supports key CAS objectives, directly, or as preparation for lending assistance and serves as input for the core integrative ESW that informs the CAS. Customized ESW represents special products produced at the country's request, sometimes with cost sharing.

3. **Partnership.** ESW is not a Bank-only product and the Bank is not the only source of ESW. Most ESW draws effectively on local expertise, improving the grounding of the analysis in the country context and often contributing to local capacity development at the same time. Other donors also produce ESW products, which the Bank can and does use. For example, the Asian Development Bank is producing financial management and governance assessments for twelve Asian countries this year. These studies are fully available to the Bank, and joint assessments are now being carried out with the Inter-American Development Bank, the Asian Development Bank, UNDP, and DFID. Even with partnership, under budget pressure, a large gap in country knowledge has developed in recent years, although the quality of Bank ESW has improved after a period of decline.

4. **ESW Reform.** To improve the effectiveness of the Bank's ESW program, in FY98 Management launched an intensive ESW reform program. Quality has improved at a rapid rate: Bankwide quality ratings of ESW increased from 73 percent satisfactory or better in FY98 to 86 percent in FY00—a quality level above the FY00 target.<sup>22</sup> Beyond quality, major issues raised as part of the reform process concerned the strategic content of ESW, its

---

<sup>20</sup> See "Assessing Aid: What Works, What Doesn't, and Why", New York, Oxford University Press for the World Bank, 1998, and "Economic and Sector Work and Results on the Ground" (CODE96-7), February 20, 1996.

<sup>21</sup> See "Fixing ESW: Where Are We?" (CODE2000-76), July 11, 2000.

<sup>22</sup> In addition, the number of ESW products with excellence awards has grown the last two consecutive years. See "Quality of ESW in FY99: A QAG Assessment" (CODE2000-75), July 10, 2000; and "Quality of ESW in FY00: A QAG Assessment", QAG, forthcoming.

coverage, and its currency. These concerns were highlighted in *Fixing ESW* and also came up in the context of the report of the Middle-Income Country Task Force.<sup>23</sup> *Fixing ESW* showed that key ESW products that were five years old or less were available for only about half of the Bank's countries with active portfolios and highlighted the issue of balance between core integrative assessments and other ESW. Of special importance is integrative work on overall assessments of key social, structural, and sectoral issues and on key fiduciary issues. In the period, FY98-00, on average, about 105 active borrowers (excluding the smallest countries) were covered by the three main instruments used to address public financial accountability—PERs, Country Financial Accountability Assessments (CFAAs), and Country Procurement Assessment Reviews (CPARs). Bankwide, coverage of PERs stood at 53 percent, CFAAs at 40 percent, and CPARs at 43 percent for this group of countries.

5. ***Rebuilding Country Knowledge.*** The Bank faces a dual challenge in its efforts to rebuild its ESW program: increasing the volume of ESW and moving to a more systematic and timely production of ESW to underpin CASs, lending, and country dialogue. Enhanced cooperation with other development partners on country-based diagnostic products, as with the partners noted above on fiduciary assessments and with greater participation by institutions in borrowing countries, will help to rebuild the ESW program, but it will not fill the gap. However, it does imply an important commitment by the Bank to produce high quality and timely ESW as these products are more widely shared with development partners. The core assessments need to be produced in line with the CAS cycle to provide an adequate diagnosis to support country strategy formulation and the implementation of country programs. The quantity and quality of ESW needs to be increased in countries with performance difficulties, where lending is not normally appropriate. Other diagnostic ESW needs to be produced to support future lending and country dialogue, and also underpin the integrative fiduciary assessment and development policy review. ESW is also needed to underpin HIPC decisions and to support client countries as they develop PRSPs. The PRSP process has major implications for the Bank's ESW program, requiring systematic use of core diagnostic tools, notably with regard to financial management and fiduciary issues, and to support capacity-building efforts.<sup>24</sup> ESW is needed to support the expected gradual increase in programmatic lending, and to address an increasingly complex development agenda in middle-income countries. Support for sub-national lending often requires prior ESW. In addition, if the Bank is to be prepared to help eligible client countries—that may not be borrowing at present—deal with volatility and crises, it needs to consider developing an ESW program for them. Thus increased investment in ESW is central to the Bank in fulfilling its poverty reduction and development mandate.

6. ***Filling the Gaps.*** The proposed phased increase in ESW funding and outputs would allow the Bank to fill major ESW gaps, notably in the core assessments, before the end of FY04. (See Table 5 in the main text.) Among the highest priorities are the integrative fiduciary assessments and the underlying public expenditure reviews, country financial accountability assessments and country procurement assessment reviews, essential for underpinning programmatic lending. For these last three, the increase to a steady state in output would come faster, moving from an expected average of about 45 reports in FY00-01

---

<sup>23</sup> See "Report of the Task Force on the World Bank Group and the Middle-Income Countries", Op. cit.

<sup>24</sup> See "Poverty Reduction Strategy Papers: Internal Guidance Note – Revised" (R99-239/1), January 19, 2000.

to 60-75 reports in FY02. These ESW products are important because they identify problems for policy action, institutional changes, and capacity building that can enhance the effectiveness of development spending and the confidence of donors that funds are spent as intended. Integrative work bringing together social, structural, and sectoral issues, is also a high priority. Reports of this type are expected to reach 30-35 per year in line with CAS cycles by the end of the period. An increased level of these integrative products is consistent with the overall shift from the project to the country as the unit of account in development. The Financial Sector Assessment Program (FSAP) will grow, and Reviews of Accounting and Auditing Practices under the ROSC initiative moves beyond the pilot phase. A major share of the increase in ESW would go to products tailored to specific country priorities and special sectoral work needed to support new lending. These important diagnostic ESW products would increase with a slightly longer lag, in line with priority gaps and needs identified in CASs. The average cost of ESW products would rise because of the change in mix toward more expensive ESW products, such as Poverty Assessments, FSAPs, and PERs, and as ESW teams draw less on trust funds.

## Annex 4: Achieving Selectivity and Alignment

---

1. The SFP laid out the framework for selectivity, including a focus on the Bank's core competencies as well as the priorities that guide the Bank's work. Further to the Board's guidance, Management has made significant progress in setting corporate and global priorities, and reviewing the framework for aligning country programs with them. The overall framework is illustrated in the figure at the end of this annex. From within this framework, this annex addresses:

- the Bank's core competencies;
- the tools for integrating and reflecting corporate priorities in country and sector perspectives; and
- the results of an effort to exercise selectivity within the portfolio of regional and global partnerships.

### A. Clarifying Core Competencies

2. The Bank's core strength is its global reach and ability to integrate across the major elements of development. Thus we need diagnostic capacity across a multiplicity of sectors. That does *not* mean, however, that we need to have implementation capacity in every sector. This will depend on specific circumstances and on our own level of competence in the area concerned, as well as that of our clients and partners. Also, competencies – both to diagnose and to implement – are dynamic and will change over time and according to country circumstances.

3. We are focusing our competencies on four areas: (i) Structural and Institutional; (ii) Social and Human; (iii) Infrastructure and Environment; and (iv) Cross Cutting Themes. Specific competencies within each area are listed below. This list represents a first step towards defining a limited set of core competencies. To provide further focus, we will within the next months specify those competencies in which we will primarily have diagnostic or implementation capacity.

### Core Competencies

<p><b>(i) Structural and Institutional</b></p> <ul style="list-style-type: none"> <li>▪ Good Governance</li> <li>▪ Legal and judicial reform (including property rights)</li> <li>▪ Financial system</li> <li>▪ Economic management</li> </ul>	<p><b>(iii) Infrastructure</b></p> <ul style="list-style-type: none"> <li>▪ Energy</li> <li>▪ Transportation</li> <li>▪ Information &amp; communication technology</li> <li>▪ Water</li> </ul>
<p><b>(ii) Social and Human</b></p> <ul style="list-style-type: none"> <li>▪ Social protection</li> <li>▪ Education</li> <li>▪ Health, nutrition, and population</li> <li>▪ Social development</li> </ul>	<p><b>(iv) Cross-Cutting Themes</b></p> <ul style="list-style-type: none"> <li>▪ Integration of country's structural and social agenda</li> <li>▪ Rural development</li> <li>▪ Urban development</li> <li>▪ Environmentally sustainable development</li> <li>▪ Avoidance of conflict, and post-conflict support</li> <li>▪ Leveraging private investments and partners</li> </ul>

## B. Integrating Country and Sector Perspectives

4. As client countries execute their poverty reduction strategies under a wide variety of country circumstances, the World Bank needs to customize its support to them while maintaining clear corporate priorities and selectivity in the services it offers. Sector Strategy Papers (SSPs) and Country Assistance Strategies (CASs) are the key tools that will help us to meet this challenge.

5. **Country Vision.** A key lesson of the past 50 years is that development cannot be done *to* a country; it must be done *by* the country. Country ownership is a key principle of the CDF, and explains why the best CASs are rooted in the country's own vision for poverty reduction and development. Many IDA countries are now producing Poverty Reduction Strategy Papers (PRSPs), which also have an important bearing on Bank CASs. The Bank strongly encourages non-PRSP countries to set out their own vision and strategy as well.<sup>25</sup> Developing and articulating this vision and a strategy for achieving it is at the heart of the PRSP process in low-income countries. For middle income countries, the CAS is meant to summarize the country's development strategy and objectives; however, there is not a specific Bank-supported process to support the articulation of the country's strategy. The Middle Income Task Force has recommended experimentation with a Letter of Development Strategy as a possible vehicle for countries to set out in the CAS their own vision and strategy with respect to the social, structural, and sectoral agenda.

6. **The Vision-CAS Link.** Once the country sets out its vision, such as through a PRSP, the CAS can become the Bank's in-country business plan — a selective program of assistance that takes into account the Bank's areas of comparative advantage and the activities of other partners. This link is already being implemented. Beginning July 2002, IDA CASs presented to the Executive Board will normally be based on a PRSP.<sup>26</sup> In a few instances, PRSPs and CASs have already been synchronized. In most cases, however, transitional arrangements are being planned to ensure that country programs can count on agreed (even if interim) CAS guidance, while an I-PRSP or PRSP is put in place. For example:

- Two CASs discussed by the Board in November 2000 have already been substantively grounded on full PRSPs: Burkina Faso and Uganda.
- A few country programs are grounding their next CASs on the countries' upcoming I-PRSPs, e.g., Armenia (planned for FY01 Q3) and Nigeria (planned for FY01 Q4).
- In some other cases, synchronization between the full CAS and the PRSP is currently planned, but the timing of the completion of the CAS-PRSP package depends on progress in country dialogue on the PRSP. In other cases, bridging arrangements are planned—with interim CASs or CAS updates preceding PRSP-linked CASs.

---

<sup>25</sup> The Task Force on the World Bank Group and the Middle-Income Countries suggests that the country's development vision and strategy may be set out in a Letter of Development Strategy transmitted to the Executive Board at the same time as the CAS; see *Report of the Task Force on the World Bank Group and the Middle-Income Countries*, Discussion Draft, January 25, 2001.

<sup>26</sup> See *Heavily Indebted Poor Countries (HIPC) Initiative and Poverty Reduction Strategy Papers (PRSP)*, A Joint Memorandum from the Managing Director of the IMF and the President of the World Bank and Reports on Progress in Infrastructure (DC/2000-18), September 8, 2000.

7. **Future Role of SSPs.** SSPs are to Network and sector programs what CASs are to country programs. They develop strategic options for Bank intervention in a given sector, including in the global public goods area, based on an analysis of global sector trends, the record of the impact of Bank operations in the sector, and the comparative advantage of the Bank vis-à-vis key development partners working in the sector. In the future, SSPs will present the strategy in the context of the international development goals and the Bank's corporate priorities. Increasingly, SSPs are expected to translate strategic options into a concrete business strategy that includes country identification based on past country performance, a menu of preferred instruments for country teams to choose from, and explicit budgetary, skills, and staffing implications at the corporate level.

8. **SSPs Will Draw on CASs.** The SSP Stocktaking now under way identifies better CAS-SSP coordination as one of the priority actions for improving the SSP program. There has already been some progress: SSPs are increasingly building on work done by the Regions and country teams themselves. A good example is *Rural Development II*, which builds on the vision set out in the 1997 *Rural Development: From Vision to Action* but now factors in the demands and constraints faced at the country level, based on bottom-up Regional rural development strategies.

9. **CASs Will Draw on SSPs.** Starting with the country's development vision and drawing on ESW and other available diagnostic work, the CAS assesses the country policy and institutional framework as a basis for the Bank's program of assistance. Going forward, CASs will draw more extensively on SSPs as part of this process. SSPs will pre-identify countries where sectoral performance is weak and where there is a presumption that the CAS diagnosis will address this issue. SSPs will also increasingly explain the broad analytical underpinnings for assistance in the relevant sector and instruments offered by the Bank.

### **C. Exercising Selectivity in the Portfolio of Regional and Global Partnerships**

10. The Bank has reviewed its existing portfolio of Network Anchor-managed regional and global partnerships to ensure that they are in line with corporate priorities, build on our comparative advantages and offer significant benefits compared to costs. The purpose of this review was to free up resources for our strategic priorities – not achieve a specific numerical reduction in the number of partnerships. We expect the portfolio of partnerships to adapt in response to evolving clients needs and as we improve our understanding of poverty reduction.

11. Preliminary results summarized in Table 1 show immediate or gradual phase outs from about one third of all Anchor-managed partnerships. The partnerships selected for phase out are generally small and medium sized partnerships within ESSD, HDN and PSI. The results are preliminary, and not all partners have yet been informed of the Bank's intention to phase out. Going forward, the Bank will make considerable efforts to ensure that exits are managed properly, safeguarding against potential risks.

**Preliminary Results of Network Anchor Review of  
Regional and Global Partnerships**

<b>Network</b>	<b>Number of Partnerships Reviewed</b>	<b>Number of Partnerships Retained</b>	<b>Number of Partnerships To Be Phased Out</b>
ESSD	42	17	25
FSE	11	11	0
HDN	44	28	16
PREM	18	17	1
PSI	38	24	14
OPCS	12	11	1
<b>Total</b>	<b>165</b>	<b>108</b>	<b>57</b>

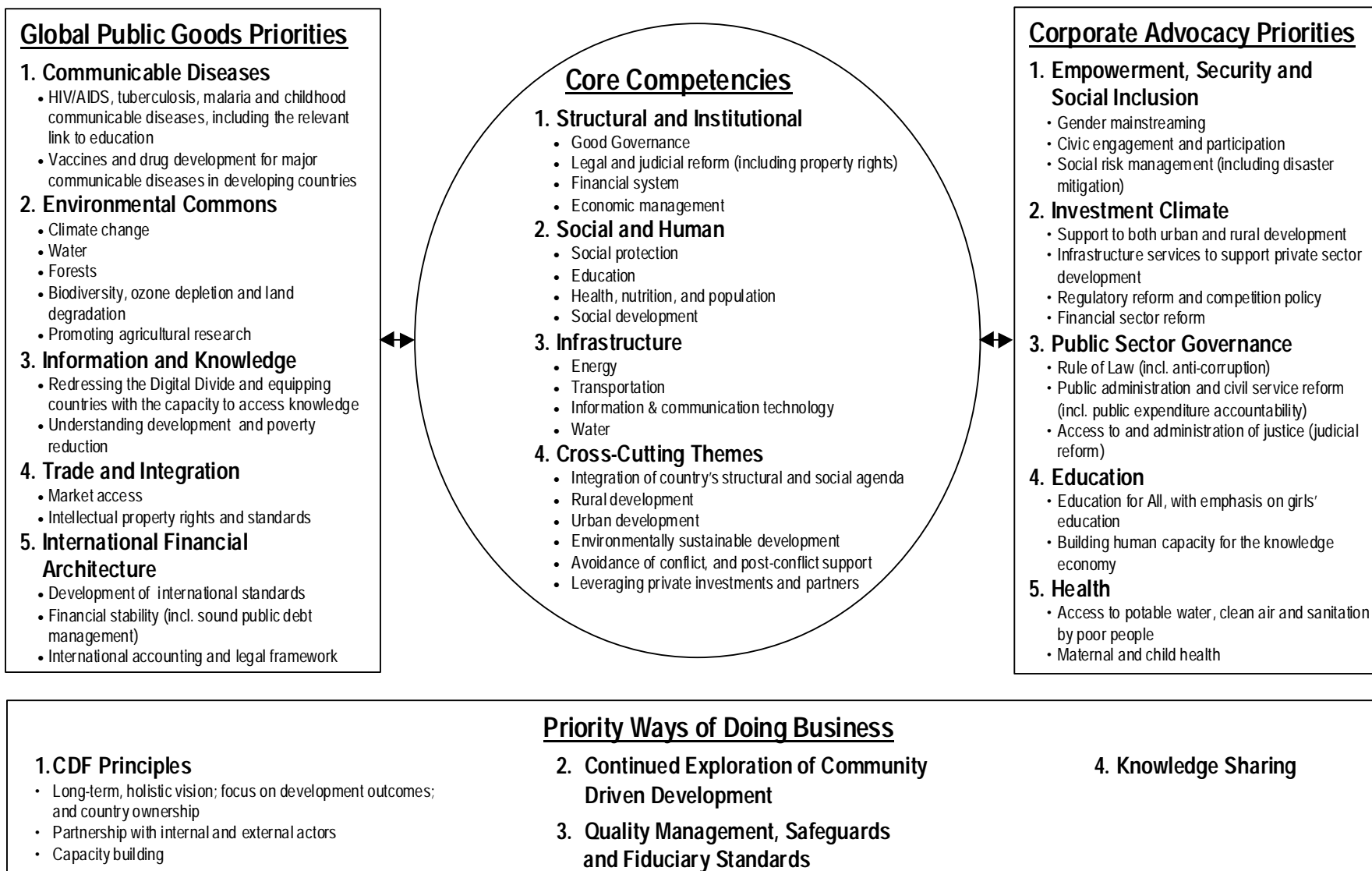
12. The selection of partnerships for retention was based on a clear set of criteria, i.e. the degree to which the partnership:

- Directly contributes to and is essential for delivering on global and/or corporate advocacy priorities
- Is consistent and fits with core competency business lines as defined by the VPU's
- Is anchored in the Bank's country work and aligned with the relevant Sector Strategy Paper, Country Assistance Strategy and the CDF process
- Draws on the comparative advantage of the World Bank Group and leverages the value added of the partners
- Generates benefits that substantially outweigh the transaction costs – both financial and direct/indirect staff/management time
- Adequately deals with the potential financial, fiduciary, and reputational risks

13. The partnerships that have been retained are characterized by larger, well established organizations addressing issues which can only be dealt with at the global level, or where the Bank relies heavily on the contributions of the partners. Partnerships selected for exit had in some cases met their objectives, e.g., policies and approaches had been mainstreamed into operations or the the partnerships were time bound. In other case partnership functions were being picked up by other development partners.

# World Bank Priorities\*

## The World Bank's Mission: Fighting Poverty with Passion and Professionalism for Lasting Results



\* Preliminary work - under consultation with staff

## Annex 5: Practising Selectivity at the Country level

---

### Selected Examples of Division of Labor

#### 1. Africa

- **Bank/Fund work on PRSPs:** While this is still evolving, the focus on PRSPs has led to a much clearer division of labor between ourselves and the Fund. The agreed macro vs. structural/social division of work is increasingly a reality. Evidence is a reduction in PRGF conditionality on structural issues and our programmatic coverage of structural/social issues in upcoming PRSCs.
- **AfDB Memorandum of Understanding:** We have formally agreed with the AfDB on how we will work together and on a few areas where each institution should take the lead. This agreement is monitored through biannual high-level consultations. One concrete example (which preceded the MoU but reflects the same approach) is the cofinancing of adjustment operations with the AfDB--this has let each institution deploy its expertise in particular areas while assuring that we are not burdening clients with competing missions and different programs.
- **Post Conflict work with DFID and UN in Sierra Leone:** Close coordination but clear division of labor on security and economic issues has proved very effective in helping Sierra Leone reduce conflict and begin to rebuild a functioning state.

#### 2. East Asia and Pacific

- IDA is the Trustee of the multi-donor Trust Fund for **East Timor** (TFET) which is jointly administered by **IDA and AsDB**. Under this arrangement, IDA is responsible for managing projects in education, health, agriculture and community empowerment, whilst AsDB manages operations in infrastructure rehabilitation and microfinance.
- Indonesian-led Partnership for Governance Reform in **Indonesia**: an initiative of the **UNDP, the World Bank Group and the AsDB**, which is intended to support Indonesia's transition to a democratic decentralized society by facilitating a national dialogue on governance issues aimed at bolstering the demands for reform, with funding to support innovative governance reform. Under the partnership, a Facility houses: a small number of national and international experts who facilitate an Indonesian-led national dialogue on issues of governance that is informed by surveys, strategic thinking and research, and sharing of international best practices; and a Governance Fund, which has attracted bilateral donor support (\$25 million) for innovative governance reform proposals from civil society and government agencies. These two vehicles function under the direction of an Indonesian-led Board of Governors shared by two prominent advocates of governance reform
- In the **Philippines**, **AsDB and World Bank** work closely in the Energy Sector with each taking lead in specific aspects of the Sector. AsDB takes the lead on power sector reform including NPC restructuring. Bank is taking the lead on rural electrification (downstream) area. We coordinate closely on both.

- **Vietnam (CDF):**

- The CDF process has greatly helped us develop the division of labor with partners (bilateral, multilateral, private sector, NGOs). Government-donor working groups have been established for 22 program areas as part of the CDF process. Among those joint working groups, other donors/NGOs/private sector are taking the leadership, including:
- The **Dutch and the UN** will take the lead in long-term disaster prevention and mitigation.
- **Japan** will lead and finance transport strategy work.
- The Poverty Working Group, consisting of government, donors, and NGOs, financed by **DFID and others**, is taking over some work on the Poverty Reduction Strategy.
- **AsDB** has been asked to lead on Water Resources management.
- The Private Sector Forum (private sector associations) will take the lead in private sector analytical work.
- Bank has dropped its support to the Ministry of Finance Modernization Project, as support is being offered by others

### 3. *Europe and Central Asia*

ECA has different types of partnerships in different parts of the region with different types of distribution of labor arrangements:

- in the ten **EU candidate countries** of Central and Eastern Europe, a Memorandum of Understanding we concluded with the **European Commission (EC)**, **EBRD**, **the Nordic Investment Bank (NIB)**, **the Nordic Environment Finance Corporation (NEFC)**, and **the Council of Europe Development Bank (CEB)** serves as the basis to ensure appropriate coordination of our respective support - both through investment lending and analytical support - for these countries. While not a MoU signatory, the **European Investment Bank (EIB)** is an active participant in the MoU working group where issues, such as a distribution of labor, are discussed. While there is as yet no formal agreement on such distribution of labor, in practice it exists with EIB and EBRD, the principal lenders. By its mandate as the EU's "in-house bank", EIB is charged in assisting the EU candidate countries in putting in place the necessary infrastructure to meet EU membership requirements; this is done primarily via the so-called Trans European Network (TEN) program in support of investments in the energy, transport, telecommunications sectors. EBRD is the primary lender to these countries in the area of municipal lending, in part because of its ability to lend to municipalities without requiring a sovereign risk guarantee. (We are about to discuss a "Framework for Cooperation" with EBRD concerning our respective activities in the municipal sector.) The Bank is still engaged in providing institutional and regulatory support in the sectors in question as well as limited investments where the other lenders are not yet very active, such as in railways restructuring, and other limited transport programs, as well as in district heating and water and sanitation programs. Great efforts are being made in discussing these programs upfront so as to ensure an even better coordination of labor than already exists. Neither EIB nor EBRD are as yet involved in the HD area, including social sector protection

programs, nor in programs undergoing major restructuring and downsizing and thus requiring financial support for industries or sectors having to lay off workers - Poland Coal Sector; Romania Railways sector. Thus, we are the prime lender in this area as well as in rural development and other selected activities in the agriculture sector. In each case, we consult closely with our partners to seek possible complementarities. Also, we are working very closely with the EC so as to ensure that our analytical support on and our financial support for the EU candidate countries is in line with similar analysis carried out by the EC and support provided by it under the EU pre-accession financial instruments;

- in the **Western Balkans**, we also have a close cooperation with the **EC, EBRD and EIB** under the **Balkan Stability Pact Economic Table**. The joint EC-Bank office in Brussels has proven to be an excellent vehicle for paving the way for a distribution of labor. EIB is again the leading lender in the infrastructure sector, EBRD in the financial and SME area and we provide, for the time being, important support in assessing the countries' overall macroeconomic conditions as well as HD and selected agriculture needs. Once former Yugoslavia rejoins the Bank, we may enter into other areas;
- in the **CIS countries**, we recently concluded a MoU with the **EC and EBRD** so as to link up our investment support with the EC's technical assistance support under the TACIS program. We envisage that said cooperation will also result in an improved distribution of labor among the three parties;
- in the countries of **Central Asia** which are common clients of the Bank and **AsDB**, we have an explicit agreement on a distribution of labor between our two institutions, with AsDB taking the lead in the education, and the Bank in the health sectors. Also, like the South Asia and the East Asia and Pacific regions, the ECA VP issued a joint letter with his AsDB counterpart on "Simple Rules of Etiquette" which is to ensure greater coordination of our respective activities in the common client countries;
- we have an explicit distribution of labor on all **nuclear power, safety and decommissioning** in ECA countries where the Bank has made it known to its partners, especially the **EC and EBRD**, that it is not active in said programs;
- we have some less formal understandings with other partners, notably the **EU**, several **UN agencies, bilateral donors** and **NGOs** concerning support for **humanitarian assistance in post conflict and other emergencies**;
- as to support for **political, democratization, security reforms**, the Bank has made it clear that it has no mandate nor expertise and thus is leaving possible relevant support entirely to the **OSCE and EU**.

#### **4. Latin America and Caribbean**

- In **Latin America and the Caribbean**, where the Bank used to maintain its own regional trade policy team, we have in recent years acknowledged that with strong trade capability in **regional institutions (OAS, IDB, UN Economic Commission (CEPAL))**, it makes sense for leadership in that area to be with them, and have disbanded our own team. The regional agencies are now providing the technical support to the negotiations for a Free Trade Area of the Americas.
- In Argentina the **Bank** provides lending for the support of fiscal reform at the subnational level, as well as for social programs at the national (as well as sub-national) level. The

**IMF** on the other hand is responsible for agreeing on the fiscal parameters at the national and sub-national level and providing resources to cover short term financing needs.

- As in other regions, in the context of the **PRSP** process, a much clearer division of labor between ourselves and the **IMF** has evolved. The macro vs. structural/social division of work has evolved into a good example of interagency cooperation and division of labor.
- **IBRD/IDB/CEPAL** have agreed through the regional program on "Improving the Surveys of Living Conditions (ISLC/MECOVI)" in LAC to implement an effective division of labor to improve the quality and coverage of household surveys by strengthening the institutional capacity of the national statistics offices in the LAC region. WB and IDB work together in the development of training activities and country specific programs. The regional component of MECOVI is funded by IDB, but implemented by CEPAL. The development and management of the regional data bank is in charge of CEPAL.
- **PAHO/ IDB/IBRD** have developed with great success a "Shared Agenda for Health in the Americas" whose basic goal is to contribute more effectively to improving health conditions of the people in the hemisphere by adding joint and coordinated efforts to each of their agendas of independent activities, based on the comparative advantage of each organization. PAHO as a technical cooperation agency provides technical expertise in various specific aspects of the health sector, while the IDB and the WB focus their work on the mobilization of resources and on integrating the health variable into the broader economic development agenda and dialogue with the country.
- In **Central America**, there are several examples of ways the **Bank and IDB** practise an effective division of labor. For example, in recent years, it was agreed that the IDB would take over responsibility for coordinating donor consultative groups from the Bank. As another example, at a practical level in Central America, the World Bank takes the lead on most lending for development in rural areas, the IDB in urban areas.
- In the Caribbean Region, the **World Bank** co-finances with the **Caribbean Development Bank** projects in sectors such as water and catastrophic insurance. In particular, the Bank provides technical assistance to water related projects, while CBD finances the development of the infrastructure for the project. In the area of catastrophic insurance, the CBD lends to countries the Bank cannot lend to, such as Antigua and Barbuda or the British Overseas Territories. In the area of AIDS, the Bank lends to the Governments in the region, while bilateral donors like **CIDA** or **USAID** provide grants to sub-regional organizations.

##### 5. *Middle East and North Africa*

- MNA co-signed a MoU with **the African Development Bank** which defines our collaboration: more common upstream work on strategy and ESW, and case by case division of labor in the countries. Also, for the last 4 years, all adjustment operations in the Maghreb have been co-financed with the **AfDB**. AfDB under such operations has taken the lead on key components of the reform programs (e.g., insurance sector in Tunisia).
- **Yemen Child Development project: IDA** finances and **UNICEF** executes.
- Bank Management of the **US-AID TA fund in Jordan**

- Division of labor with **EU between education and health in Maghreb** countries
- **Morocco**: the Bank sought to support broad based rural development programs and catalytic projects, establishing a broad framework for donor financing. The rural potable program and the social priority program have attracted large co-financing from all donors. We are currently working on a social fund and a judicial reform projects, both expected to serve as a framework for larger concessional financing. These are looser type forms of co-financing or partnerships, but which in my view foster both institutional strengthening of key Governmental institutions, as well as real partnerships.
- **Tunisia**: Bank provides expertise for the **EU** financed program to upgrade SMU as part of the Association Agreement with EU; also thanks to very good government coordination mechanisms, cooperation with both the EU and the **AfDB** is extremely smooth. The three institutions collaborate closely in the flagship program of economic competitiveness.
- **Palestinian Authority**: In the Emergency Response Program, the **Bank** and the **UN agencies** have divided donor coordination work in different sectors and shared this work with the PA Ministry of Planning and International Cooperation. The cooperation and division of labor with the UN group has been effective channeling resources to the needs of the unemployed and those most in need of vital social services.

## 6. *South Asia*

- **India** -- **Bank** and **AsDB** work with different reforming states. Some bilateral donors are forming partnerships with each of us.
- **Pakistan** -- **Bank** and **AsDB** divide power sector engagements according to utility companies, but under a shared sectoral policy framework.
- In **several SAR countries**, we referred requests for reforms in police force to those who have expertise (UK, New York City).
- In **several SAR countries**, **UNDP** works on political aspects of government decentralization, and we work on fiscal aspects of such decentralization. In others, we simply brought in other **bilaterals** that have relevant expertise (Canada, Australia).

## **Annex 6: Key Assumptions Underpinning FY02-04 Resource Framework**

---

### **Key Assumptions**

1. The key assumptions underpinning the resource planning framework for FY02-04, shown in Table 3 of the main text, are as follows:

- Cote d'Ivoire's IBRD loans were placed in non-accrual status at the beginning of March 2001. The impact on net income in FY01 is around \$195 million (loan loss provisions of \$150 million plus interest income not received of \$45 million), and a similar impact (\$195 million) is assumed in FY02 and FY03 as provisions for loan losses are built to the 100% level required for IDA-only countries. In FY04, the income impact is assumed to fall to \$45 million—i.e., interest income not received.
- IBRD loans to Zimbabwe are projected to remain in non-accrual status (gross income in FY01 includes roughly \$15 million in interest payments that the Bank expects to receive).
- The \$30 million grant for FRY approved by the Executive Directors on March 12, 2001, is assumed to have been allocated in FY01 from FY00 allocable income, reducing the balance in surplus from \$161 million at end-FY00 to \$131 million. FRY is assumed to resume interest payments of around \$120 million per year beginning in FY02.
- Projected net disbursements are in line with the corporate high case: \$3.9 billion in FY01, \$2.7 billion in FY02, negative \$300 million in FY03, and negative \$3.5 billion in FY04. The negative net figures reflect SSAL repayments. No new SSALs are factored into the current projections.
- Projected gross income assumes that the current interest waiver policy (25 basis points waiver on “new” loan products and 15 basis points on “old” loan products) remains in place.
- The IBRD/IDA administrative budgets, excluding the DGF, shown under Baseline Uses reflect a notional price adjustment of 3% per annum but exclude the real budget increases discussed in Section B of Chapter 2. As a part (FY00 actual—40%) of the administrative budget is financed by IDA, IBRD gross income has been increased accordingly.
- DGF expenses are projected to remain constant at the FY01 budget level.
- It is assumed that the Bank will not be required to contribute to the Pension Plan over the FY02-04 period.

### **Potential Impact of Risks and Uncertainties**

2. The factors that would affect gross income are changes in: (i) the level of interest and exchange rates; (ii) the volume of net disbursements (because of spread income and charges); and (iii) interest and fee waivers. The sensitivity of gross income over FY02-04 to interest rates and exchange rates is difficult to quantify, but in the near term (i.e., in FY01), a 100 basis point decrease in interest rates will increase income by an estimated \$30 million, while a 5% depreciation in the Japanese yen and Euro, relative to the US dollar will reduce income by an estimated \$30 million. The impact of changes in waiver policy is easier to estimate: for example, if waivers on old loans were increased to 25 basis points from the present 15 basis

points, gross income would fall by an estimated \$100 million each year over the FY02-04 period.

3. The biggest risks and uncertainties, however, affect the level of committed uses. The required level of allocations to reserves and loan loss provisions will be affected by changes in the credit quality of the loan book (rating downgrades as well as non-accrual events) and increases in loan demand. Estimating the impact of demand shocks on loan loss provisions is straightforward: each \$1 billion in additional net disbursements will reduce income available for other uses by \$22 million (assuming no change in portfolio credit quality) and vice versa. The impact of changes in credit quality on provision expenses and proposed allocations to reserves is more difficult to predict, but such changes could displace all other allocations of net income, especially if the Bank's risk-bearing capacity is to be fully replenished in a single year. Finally, it is important to note that the main upsides to the income outlook for FY02-04 are also on the credit side. For example, if Cote d'Ivoire is able to clear its arrears in the near term, it may not be necessary to further increase loan loss provisions in FY03-04, thereby increasing income available for other uses (relative to the projections) by \$150 million in each year.