

WORLD BANK GROUP
STRATEGIC FRAMEWORK

JANUARY 24, 2001

OVERVIEW

1. This paper sets out a strategic framework for the World Bank Group's work for the next 3-5 years. The framework is set squarely in the context of our mission to reduce poverty and it builds upon lessons learned about how that can be done most effectively. It also builds upon several pieces of work currently underway to strengthen our approach in a number of areas.¹
2. The paper aligns the Bank Group's efforts with the international development goals, recently confirmed in the Millennium Declaration. The Bank Group fully endorses these goals. The paper indicates how we will support them in our work, but also points to some of the challenges associated with meeting them.
3. The first of the goals is to reduce by half the proportion of people living in absolute poverty by 2015. Given the magnitude of the challenge, this means that all partners need to align their strengths and take a comprehensive approach to scale up the overall effort. To maximize impact, the Bank Group will be even more focused in its country and global work: drawing on its comparative advantage and capabilities, encouraging and supporting our partners in leveraging their capabilities--and explicitly stepping back where others should take the lead.
4. Greater selectivity in what we do will result in better leverage of the Bank Group's scarce resources and enhance our development impact. This is an objective shared by our Board, management, and staff--as well as our borrowers. The paper describes a framework for selectivity—with country, cross-country, and global dimensions. The challenge is to implement this framework more systematically and rigorously. This is a difficult and complex task, particularly the alignment of corporate priorities with country programs and ownership.
5. The paper draws together recent advances in our way of working and understanding of development. It does not propose new initiatives but, in looking forward, it seeks to bring together various strands of our work and clarify where we stand. Its emphasis is on *implementation*: to *consolidate*--building upon our renewal program over the last several years; to *focus*--on the challenges that have emerged; and to *align*--our resources (human and financial) with our priorities.
6. The paper has benefited from valuable guidance provided by the Executive Directors in the course of several informal discussions with senior management.

¹ Examples include the Strategic Compact Assessment and the Middle-Income Task Force.

1. THE CHALLENGE: FIGHTING POVERTY IN A GLOBAL AGE

7. ***Poverty is the great global challenge.*** Despite economic progress in recent decades in many parts of the world, too many people still live in conditions of abject poverty. Already, more than a billion people struggle to survive on a dollar a day or less. In the next 25 years, 2 billion will be added to today's world population of 6 billion, with 90 percent of the increase in the poorer countries--placing major stresses on urban and rural areas as well as on all our systems, human and natural. Compounding this challenge, inequality across nations has continued to widen: the gap between the 20 richest and 20 poorest countries has nearly doubled since 1960. For billions of people, hunger, poor health, and limited access to clean water are everyday crises. There are demographic challenges related to the projected tripling of urban populations over the next generation and, for many countries, an aging population poses a potential challenge to the stability of social systems.

8. ***A changing context.*** The challenge of poverty has to be met in a rapidly globalizing world:

- ***The growing importance of the private sector and trade as a source of growth and economic dynamism:*** private flows to the developing countries are now five times as much as official flows, which are declining--but the private flows are volatile and concentrated in a relatively small number of countries. Developing countries are now also more closely integrated in the world economy, with their share of trade in GDP having doubled to about 40 percent over the last 10 years.
- ***Rapid technological advances:*** biotechnology and scientific advance hold great potential for development. Furthermore, in the knowledge economy, a premium has been added to education and intellectual capital--facilitated through information technology. These developments are redrawing some of the rules of the global economy via increased productivity and competitiveness.
- ***Civil society has become a major force in development:*** governments and institutions such as the Bank Group need to work more closely with civil society -- at the local and global levels. At the global level, the greater voice of advocacy groups and various non-governmental organizations--powered by the internet--has struck a chord with a public concerned about the risks of globalization.

9. ***Need to bring the benefits of globalization to all.*** There is an opportunity to make real inroads into poverty in the next 10-20 years, and to bring the benefits of globalization to all. The growth prospects for developing countries are strong--driven largely by improved country policies and institutions. In addition, technology offers unprecedented opportunities for catch-up by poorer countries, although it also carries risks for those on the wrong side of the digital divide. Financial volatility and greater exposure to trade shocks are other risks related to globalization. We have learned a great deal about what makes for effective development--that market reforms and institution-building lead to growth and poverty reduction, and that a comprehensive approach, country ownership,

and participation are all crucial.² The World Development Report 2000/1 encapsulated what we have learned about poverty reduction—emphasizing the themes of opportunity, empowerment, and security.³ Ultimately, development is about expanding the ability of people to shape their own lives.

10. ***The international development goals.*** The centrality of the poverty challenge is reflected in the international development goals adopted by the international community.⁴ All seven of these goals address important dimensions of poverty. The first goal is to reduce by half the proportion of people living in absolute poverty (defined as living under \$1 a day) between 1990 and 2015. The goals reflect the multidimensional nature of poverty and include targets for increasing school enrollment, reducing child and maternal mortality, expanding access to reproductive health services, eliminating gender disparities, and improving environmental management for sustainable development. They describe a world with substantially less poverty, better health and education, and social and environmental sustainability for present and future generations. The goals provide unprecedented common ground for development commitment.

11. ***The goals provide tough challenges.*** The international development goals are undoubtedly very ambitious. Meeting them will take great determination, time, and resources. The interdependence between, and proper sequencing of, development policies and programs is also a key factor in how much progress can be made. The goals are set in a global context, but China and India (with their combined populations of over 2 billion people) have such a huge influence on the overall outcome that they should be considered separately. Similarly, Sub-Saharan Africa merits special focus because it faces a unique and daunting poverty challenge. More generally, the nature of the challenge in each country and region depends heavily on local circumstances. Measuring progress in achieving the goals is important, but there are significant statistical problems--which we must work to overcome. Even with better data, it will be difficult to link specific partner contributions to the achievement of specific goals. Aligning the goals with the Bank Group's operations will thus require the development of realistic timeframes, intermediate goals, and measures differentiated by regions and countries. Work is underway on how to link the goals to our country and sector strategies.

12. ***The goals and the Bank Group's mission.***⁵ The effort to meet the international development goals is not just the responsibility of the Bank Group or any other single body--the goals are for the entire international community, starting with the countries themselves. Our contribution crucially depends on the efforts of national governments and our partners. That said, the goals do provide a useful frame of reference for our mission to fight poverty--and we can complement the efforts of our partners with competencies that are particularly relevant in the context of globalization: our world-wide reach, our strength as a financial institution, and country-specific knowledge; our comprehensive perspective, sectoral depth and, also, capacity to integrate across sectors;

² *Assessing Aid: What Works, and What Doesn't, and Why*, World Bank Policy Research Paper, November 1, 1998.

³ *World Development Report: Attacking Poverty*, September, 2000

⁴ Millennium Declaration signed by over 150 Heads of States or governments, New York, September 2000; and *A Better World for All: Progress towards the International Development Goals, 2000*, (jointly produced by the World Bank, UN, OECD and IMF).

⁵ James D. Wolfensohn: *Building An Equitable World*, Annual Meeting Speech, September 2000.

our global knowledge and research capacity; our long-term commitment and objectivity; our convening powers; and our ability to work with the public and the private sector through the complementary resources and mandates of the Bank, IFC, and MIGA. Above all, the Bank Group's core strength continues to be our highly-skilled, diverse, and committed staff.

13. **Progress.** Our renewal program over the last five years has helped position us to respond to the challenges ahead. There has been progress in enhancing our client responsiveness (including through rapid decentralization), strengthening partnerships, increasing transparency, encouraging participation and ownership, and emphasizing knowledge as a prime factor in development. We have improved quality and results--leveraging billions of dollars in development effectiveness for our clients in the process. Most importantly, the Bank Group is now better focused on some of the critical themes that impact upon poverty reduction.⁶

14. **Challenges.** At the same time, there are challenges: strengthening collaboration with our partners to scale up our overall impact; achieving better synergy between our lending and non-lending programs; striking the right balance between our country business and the global programs that we support; and ensuring that we have the proper skills mix and flexibility to meet emerging client needs. The costs of the additional workload undertaken in the context of the Compact have been significant and greater than anticipated, with resulting resource pressures on some core operational activities. Staff and managers are overloaded and stress levels are high. Thus the need for selectivity in what we do is greater than ever. In addition, we need to work harder to ensure that our actual behaviors are aligned with our espoused organizational values--teamwork, trust, and transparency.

15. **Consolidate, focus, and align.** The Bank Group's future direction will build on both the lessons and achievements of the past. With the significant broadening of our agenda in recent years, the institution is stretched to deliver on all its commitments. Thus, we need to continue to improve the efficiency and cost-effectiveness of our systems. We also need to strengthen management procedures and accountability, and measurement of our performance. Above all, we need to further clarify our institutional priorities and align our resources better with those priorities. To a great extent, we have the framework to help us in the process. The major challenge ahead is implementation.

2. STRATEGIC RESPONSE: ENHANCING THE BANK GROUP'S IMPACT

16. **Approach.** Looking forward over the next 3-5 years, our main focus will continue to be at the country level--helping poor people to lift themselves out of poverty. As a global institution, we are also well placed to address cross-border issues, such as environmental threats and communicable diseases. We will provide finance, knowledge and capacity-building assistance; and act as advocate for poor countries and for key global development issues. Our mix of instruments will depend on the development challenges facing each country and differs across countries. In all of our work, we will emphasize our convening and facilitation role.

⁶ Progress Note on *Strategic Compact Assessment: Informal Meeting with Executive Directors*, December 13, 2000.

I. Framework for Selectivity

17. Enhancing the Bank Group's effectiveness implies an increased focus on those areas of development where we can have maximum impact. That means making explicit trade-offs. Over the last several years, we have developed a framework that will enable us to achieve this objective. It has the following elements: applying three main dimensions of selectivity; implementing the principles of the Comprehensive Development Framework (CDF); assessing our core competencies; and strengthening the key pillars for poverty reduction, based on our development experience.

18. The three **main dimensions of selectivity** are:

- *within countries*
- *across countries; and*
- *at the regional or global level.*

19. *(a) Within countries.* The CDF **principles** are the guide for our approach to working with our client countries. This should enable the country and its partners—to take a holistic view of what is being done in a given country, and thus make appropriate decisions about the division of responsibilities. The principles are:⁷

- a long-term vision and strategy;
- clear country ownership of development goals and actions;
- strategic partnership among stakeholders; and
- accountability for development results.

20. Effective implementation of these principles, which are also embodied in Poverty Reduction Strategy Papers (see paragraph 29), will help our clients and the Bank Group to make choices not only on what *we* are best able to do, but also on what *others* are better suited to do--and where there can be more effective aid coordination and division of labor. We will continue to improve the Country Assistance Strategy (CAS) to further sharpen our focus on areas where we can have the greatest impact on poverty reduction--in the context of what our partners do. Improved Sector Strategy Papers (SSPs) will also help further to guide our country strategies.

21. *(b) Across countries.* The key *criteria* guiding our cross-country actions are income, poverty and performance—focusing on countries where the overall policy environment favors aid effectiveness and where our presence will be high-impact. Experience indicates that important elements here are the strength of local capacity, participation, and community involvement. Implementation of performance criteria does not mean that the Bank Group works *only* with good performers. Even in countries where lending is not appropriate given the policy environment, we will continue to offer non-lending and, especially, capacity-building support--to help poor performers *become* good performers. This is one of our most important roles.

⁷ Note to Development Committee on the *Comprehensive Development Framework* (DC2000-17), September 7, 2000.

22. (c) *At the global level.* While our work is firmly rooted in country programs, some development issues are most effectively addressed at the regional or global level (for example: HIV/AIDS, environmental commons, regional integration). A set of *criteria* has been developed to guide our work in this area, including: clear linkage to our core institutional objectives and our country operational work; proven leveraging and catalytic effect; and a clear understanding of the resources required and potential risks involved. SSPs will help clarify the areas and level of our involvement. As a general principle, the Bank Group will *explicitly step back* where other institutions have clear comparative advantage--and we will actively encourage and support leadership roles for partner organizations.

23. **Competencies.** The Bank Group's core strength is its global reach and ability to integrate across the major elements of development (see box below). We need to be able, through our own work and that of our partners, to assess a country's overall development priorities. 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.

Major Elements of Development Competence	
<p>Structural/Institutional:</p> <ul style="list-style-type: none"> • good governance, anti-corruption, and the rule of law • legal and judicial reform (including property rights) • financial system 	<p>Infrastructure/Environment:</p> <ul style="list-style-type: none"> • water and sewerage • energy • roads and transportation • environment • telecommunications
<p>Social/Human:</p> <ul style="list-style-type: none"> • safety nets and social programs • education (primary, secondary, and tertiary) and knowledge institutions • health, nutrition, and population • gender equality and the role of women • culture 	<p>Other key cross-cutting themes:</p> <ul style="list-style-type: none"> • capacity building • private sector strategy • rural strategy • urban strategy • trade • technology • avoidance of conflict and post-conflict issues

24. **Key Pillars.** Based on the lessons of development experience, there are two basic pillars underpinning our priorities in the fight against poverty. They are inter-related, embody an emphasis on capacity building, and reflect the translation of the main themes of the WDR 2000/1 into action--opportunity, empowerment and security:

- ***Building the Climate for Investment, Jobs, and Sustainable Growth.*** Sustainable and equitable growth is vital for the generation of the jobs and the resources for services that are crucial for poverty reduction. This growth depends fundamentally on creating a positive investment climate for micro, small, medium, and large firms—including the related governance, institutional and policy structures, and the necessary infrastructure. It also means helping to reduce volatility and the risk of financial crisis.
- ***Empowering Poor People to Participate in Development and Investing in Them.*** Effective participation involves bringing the influence of poor people into the development process, enabling them to develop their capabilities and to contribute to and benefit from growth. Basic services, especially education and health, are a priority. Building poor people's assets, and protecting those who are most vulnerable, are also essential elements of poverty reduction.

25. These two pillars provide a way of testing the potential effectiveness of our individual operations. Taken together, they will ensure that we act both to promote sustainable and equitable growth, and the participation of poor people in that process. They embody the structural and social agenda of the Bank Group. Effective action in *both* areas is crucial for sustained poverty reduction.

26. **Corporate Priorities.** The above framework for selectivity, if rigorously applied to our activities, will lead to a set of corporate priorities: areas on which we will place special institution-wide emphasis. CASs and SSPs, and the interplay between them, also can be used more effectively as tools to help identify these priorities. Given the natural tension between “bottom-up” country-driven needs and more “top-down” imperatives, this is inevitably a difficult and iterative process. The development of corporate priorities, however, is essential to provide better guidance to staff, as well as to our clients and partners. Making clear decisions on corporate priorities, and ensuring their implementation, is the responsibility of senior management.

II. Applying the Framework for Selectivity

27. The framework described in the previous section--including the discussion of principles, dimensions of selectivity, competencies, and priorities—applies to our work at both the country (low-and middle-income) and global level. The following section describes how this framework will be implemented, with some of the implied changes in the way we do business--including in our instruments.

28. ***Low-income countries.***⁸ The Bank Group, principally through IDA, is a key provider of concessional assistance to the world's poorest countries--an indispensable role for the future given the poverty challenge they face. IDA support, both lending and

⁸ Paper to Development Committee on *Supporting Country Development: The World Bank Role and Instruments in Low and Middle Income Countries* (DC/2000-19), September 10, 2000.

non-lending services, targets sound social and structural programs. IDA, IFC, and MIGA work together, paying special attention to the investment climate for private sector development. The Bank also works closely with the IMF in these countries, with an agreed division of labor: the Bank leading the dialogue on social/structural issues, and the Fund leading on macroeconomic and related issues. Working closely with the Fund, we have undertaken the HIPC Initiative to help poor countries reduce their debt and free up resources for poverty reduction. Ensuring the full financing of HIPC is a fundamental priority.

29. IDA countries, both those eligible for HIPC and others, prepare Poverty Reduction Strategy Papers (PRSPs)--which encapsulate a country's own vision of its development priorities. Building on CDF principles, PRSPs help us, in turn, to prepare our CASs--including the program of lending and non-lending products to be used in supporting the country's agenda. The CDF/PRSP process has been welcomed by clients and partners, and is ideally tailored for discussion of division of labor--thus ensuring consistency of programs and reducing overlap. Building on this process, our country strategies will sharpen their focus on the rationale for our involvement (or not) in specific areas and the types of instruments to be used--aiming even more at making the biggest possible impact on poverty. The international development goals can provide additional focus and sharpen the framework for bringing together the variety of development partners in this process.

30. The new poverty reduction support credit (PRSC) will be an important vehicle to support the above agenda. The PRSC, a programmatic instrument, will be designed as a sequence of credits that will support long-term programs of institutional and policy reform—with ongoing participatory and transparent mechanisms to evaluate progress. Other instruments--investment lending, IDA guarantees, and individual sector-focused adjustment credits--will also increasingly fall within such a long-term programmatic approach to reducing poverty. The PRSC will be underpinned by increased capacity building and in-depth sector work-- through our diagnostic or advisory services. At the same time, the Bank will intensify its work to explore further options for grant facilities for low-income countries, in the context of the IDA-13 replenishment and beyond.

31. *Middle-income countries.*⁹ Since the IBRD-eligible countries are home to the majority of the world's people living on less than \$2 a day, the Bank Group's continued engagement is central to our mission of fighting poverty and to the achievement of the international development goals. This entails using lending and non-lending services to help middle-income countries strengthen their social/structural policies and institutions, and improve the climate for investment and jobs. Doing the things that the private sector cannot or will not do (e.g. in the social sectors and environmental protection), and explicitly "crowding in" private investment, are important principles guiding our work in this diverse group of countries.

32. As in the low-income countries, CASs will remain the key vehicle for setting out the Bank Group's middle-income country programs. But again, they will have greater selectivity in concentrating our support where it can have most impact in fighting poverty. CASs will clearly set out the lending and non-lending program and also

⁹ Based on work underway by the *Middle Income Task Force*.

articulate the understanding reached between us and our clients on performance, deliverables and accountabilities. Building on progress to date, work is underway to build stronger mechanisms for Bank/IFC/MIGA coordination on country and diagnostic work in the middle-income countries.

33. While many IBRD-eligible countries have some access to financial markets, the maturities and continuity of that access are not adequate for the long-term development challenges they face. Moreover, private markets often lack a sufficiently comprehensive view of development progress. Again, therefore, the Bank Group needs to stay engaged (for example, through advisory services) even as countries' borrowing requirements decline. In this context, priority will be given to maintaining our country knowledge and analytical base--to ensure our continued readiness should there be a reversal in a country's capital market access. This will enable the Bank to respond quickly with support for a country's social and structural reform priorities in the event of a shock. It also will help ensure that any such lending will be strongly developmental--even when provided under crisis circumstances.

34. In line with recent trends in demand and understanding of development effectiveness, we foresee greater use of program lending to support the social/structural agenda in middle-income countries. Reflecting the increasingly volatile external environment, IBRD's annual lending level itself is likely to remain volatile, as middle-income countries struggle against capital market dislocation and the risk and effects of contagion--where the Bank complements the Fund's short-term assistance with longer-term support for social and structural reform.

35. ***Instruments.*** The above discussion of our low-and middle-income country business--as well as lessons of development experience--suggest that we can build on and refine some of our current instruments. A gradually increasing focus on a package of the following instruments is foreseen--all of them pointing to the increasing importance of capacity building. This is in line with what we have learned about local capacity being key to participatory ownership of reform programs and projects—and to development effectiveness:

- *Knowledge, Advisory Services, and Capacity Building.* Given the critical role of non-lending services in underpinning lending, transferring knowledge, and building local capacity, these will be better integrated into country assistance strategies. Knowledge is exchanged not only through our core diagnostic work, but also through other advisory services; training (e.g. through the World Bank Institute), thematic groups, research networks, the Global Gateway, partnerships, and aid coordination. We need to rebuild our program of economic and sector work, investing more in our core diagnostic and capacity-building support, and find ways to finance other knowledge and advisory services (e.g., through cost-sharing)--including for non-borrowers. It should be emphasized that the increasing emphasis on knowledge, advice, and capacity building does not imply a decline in lending.
- *A Programmatic Approach.* Social and structural reforms are inherently long term and can be more effectively supported by multi-year programs of assistance--synchronized with a government's annual policy and budget cycles. Thus the programmatic approach is expected to increase in importance. This may be at a

national, sub-national, or local level and could include various forms of program loans, investment projects, and/or non-lending services. To be most effective, the programmatic approach must include an integrated view of a country's development priorities, in-depth sectoral knowledge, and strong country ownership. This approach also calls for greater emphasis on capacity building. In this context, we will streamline loan conditionalities--making them fewer, better targeted, and more realistic. The increasing emphasis on programmatic approaches also will strengthen the *complementarity* between lending and non-lending services.

- *High-Impact Projects.* Individual investment projects will remain very important tools in the Bank Group's assistance package. They provide opportunities to test approaches, learn lessons, and provide intensive poverty-focused support e.g., for community-driven development. These projects should ensure the greatest impact through demonstration, scaling up and replication by our clients and partners. This is important to ensure that we best leverage our limited resources, while managing the risk often associated with high-impact projects.

36. ***Global and regional programs.*** How does the discussion of principles, selectivity and priorities apply to global and regional programs? Over the past five years, there has been a significant expansion of Bank Group involvement in global programs. This has served to enhance our development impact in critically important ways, but it has also stretched our resources and capabilities, and at times diffused our priorities. A key requirement, therefore, has been the need to develop a stronger framework for prioritizing and managing these programs--to ensure linkage with country-focused priorities, alignment with delivery capacity, and adequate funding. The key elements of such a framework are being put into place, but implementation is still at an early stage.¹⁰

37. Clear *criteria* for engagement in global programs have been established (see paragraph 22). *Priority areas* for our involvement in global programs also have been clarified: promoting improved economic governance; trade integration; communicable diseases; protecting the environmental commons; and information and knowledge. Since these are all large areas, we have begun to set priorities *within* each of them--for example, focusing on HIV/AIDS, malaria, and TB within the area of communicable diseases, and financial sector stability within the area of promoting improved economic governance.

38. This framework of criteria and priority areas for global action will be implemented through a number of concrete steps. These steps will be completed by the end of FY01, with a report on progress to the Board and Development Committee in the Spring: first, through a deliberate exercise being undertaken by each Network, we will review our existing portfolio of partnerships and initiatives and make clear prioritization, phase-out, and resourcing decisions. Second, work and consultations are underway to engage partners and clarify the emerging division of labor with other institutions. Third, we are examining the financing of global programs and how the "global business" can be better integrated into our overall resource framework--rather than being handled in an *ad hoc* manner.

¹⁰ Board Paper A *Framework for Managing Global Programs and Partnerships* (R2001-0002) January 9, 2001; and Note to Development Committee on *Poverty Reduction and Global Public Goods* (DC/2000-16), September 6, 2000.

39. In all of this, senior management is playing a more active oversight role in ensuring the alignment of existing or new global programs with our core development objectives. That said, some issues remain to be tackled—for instance, the use of trust funds as a major source of financial support for global and regional programs.

3. IMPLEMENTATION: KEY ISSUES

40. Implementing the framework described previously implies three sets of actions: (a) to consolidate what was begun under the Compact; (b) to focus and be selective, especially in the division of labor with our partners; and (c) to align all our resources to support our priorities. Work in these areas is underway and will be further reflected in the Strategic Directions Paper and in the Work Programs and Budget Paper for the coming fiscal year.

41. **(a) Consolidation.** The Compact was an ambitious program, involving refueling of current business activity, responding to our broader development agenda, enhancing the use of knowledge as a force for development, and revamping our institutional capabilities. As the ongoing Compact Assessment indicates, progress has been made in these areas. At the same time, much remains to be done to turn the Bank Group into a highly aligned, efficient and performance-based organization. A major challenge is to consolidate in the areas of new deliverables, knowledge/advisory/services/and capacity building, and costs of doing business.

42. **New Deliverables.** Current processes and systems do not adequately capture the ongoing transformation of our traditional deliverables (lending, economic and sector work), nor do they sufficiently capture the investments in new product lines. These new deliverables include non-lending services (e.g. CDF, PRSP), knowledge management, and financial and leveraged products (e.g. HIPC, Global Environment Facility). Work is ongoing to better record and report the effort on these new deliverables so that the majority can be captured by the end of FY01--a prelude to measuring better their impact and effectiveness. In that process, we are also looking at the appropriate balance between new and more traditional deliverables and the linkages between them.¹¹

43. **Knowledge, Advisory Services, and Capacity Building.** There has been a lot of effort over the last several years to bring knowledge more to the core of our operations--including through investing in knowledge networks, communities of practice, and information technology to enable better internal and external knowledge sharing. We are now taking stock and developing a stronger framework for all our knowledge and analytical activities--to ensure their cost-effectiveness and impact, particularly in helping to build local capacity. Such a framework will enable us to consolidate our various initiatives, further integrate knowledge activities into operations, and align knowledge management more closely with our business processes. This will be supported by better monitoring and evaluation, as well as appropriate incentives and signals for staff.

44. **Costs of Doing Business.** In the past several years, new financial management and reporting requirements, expanded procurement arrangements, and tighter implementation

¹¹ Progress Note of the *Task Force on Better Measurement of the Bank's Product and Services*, December 28, 2000.

of safeguard policies have been introduced. These obligations have strengthened the quality of our operations and the likelihood of their sustainability. They have also, however, added significant financial and transaction costs (both to our clients and to the Bank Group), placed a heavier burden on staff, and led to some risk-averse behavior. To address these issues--while maintaining our performance standards--we are reviewing the internal aspects of our policy requirements, improving our system for safeguard compliance to ensure more timely decisions, and actively seeking greater policy harmonization with other MDBs. We will be looking for ways to scale up from traditional project-specific interventions to a more sector-based approach in which borrowers themselves will have greater responsibility for overall compliance (supporting this through increased capacity building). This will also have the effect of helping to increase development effectiveness, lighten the load on staff, and reduce costs.¹²

45. *(b) Focus and Selectivity in Partnerships and Division of Labor.* Our approach to selectivity at the country, cross-country, and global level has been described previously (see paragraphs 17-26). This approach implies changes in our collaboration with partners—and a clearer sense of where we will play a leadership or support role, or where we will not be involved at all. To this end, clear criteria governing the establishment of new partnerships, and an oversight process, have been established.¹³ Our emphasis will be on deepening key existing partnerships in order to maximize strategic alliances, leverage combined impact, and ensure cost effectiveness. In addition, the international development goals provide a common understanding which we can use to build even more effective partnerships.

46. Regarding our partnership with *civil society*, much progress has been made in reaching out. We are now working to go deeper in maximizing the potential of this important relationship. In particular, we will strive to better disseminate critical information to the people who may be affected by our operations--in order to ensure timely and meaningful consultations and participation. The rich experience and commitment of many NGOs is a valuable resource, but they do not, of course, substitute for our government shareholders. Regarding our key partnerships in the *multilateral* system:

- *IMF.* The recent joint note from the President of the Bank and the Managing Director of the IMF clearly underlined the centrality of this partnership and the division of labor between the two institutions.¹⁴ In the low-income countries, there has been good progress on collaboration, with the Bank leading on social/structural issues and the Fund leading on macro. This approach is being extended to the middle-income countries. Also, our joint work has been advancing--with the Financial Sector Assessment Program (FSAPs) being a successful example of these joint efforts.

¹² Draft Report, *Cost of Doing Business: Fiduciary & Safeguard Compliance*, December 27, 2000.

¹³ Board Paper A *Framework for Managing Global Programs and Partnerships* (R2001-0002) January 9, 2001.

¹⁴ Note by the Managing Director and The President on *Bank-Fund Collaboration* (SecM98-733), September 4, 2000.

- **MDBs.** There has been progress in improving our partnership and division of labor with the multilateral development banks (MDBs) at the country level. There are an increasing number of examples of effective division of labor--with the regional MDBs taking the lead in specific sectors and the Bank Group in others. These examples include, in the Philippines, where the Asian Development Bank takes the lead on power sector reform and the Bank on rural electrification; and in Central Asia, where the Asian Development Bank takes the lead on education while the Bank leads on health. We will continue this work and are now actively discussing with partner MDBs a better division of labor at the institutional level.
- **The UN.** Collaboration with the UN has expanded rapidly in recent years and has increased the impact of our joint efforts. At the country level, we are working to align our strategies to improve efficiency and make country ownership easier. On global issues, such as HIV/AIDS, we are working closely with WHO and other UN bodies. Following up on the Millennium Declaration will further open up opportunities to align strengths behind the international development goals.
- **Other multilaterals.** A joint Statement of Priorities has been signed between the **OECD** and the Bank, and collaboration has been strengthened across a variety of activities. Our relationship with the **European Union** institutions also is being expanded and deepened, including around PRSPs.

47. **(c) Alignment.** To better align our own resources with our strategy, **an integrated resource framework** is being developed in which the administrative budget will be considered together with other key uses of the Bank's financial resources. We are also assessing resource requirements for *all* elements of the Bank-funded work program. We will ensure that all CASs and SSPs, as well as existing policies and commitments, are fully costed. For FY02 and beyond, the budget process is being reformed and the annual administrative budget will be presented within a rolling, *multi-year framework*.¹⁵ Within this framework, we are strengthening our planning and budgeting system to ensure that allocations follow agreed priorities. Implementation of the budget will be closely monitored.

48. **The FY02 budget and beyond.** The size of the administrative budget for FY02 and beyond is a critical issue—as it will be the first year since FY97 where the level is not pre-determined. At present, the Bank is facing intense budget pressure--stemming from mandates added during the course of Compact implementation and, also, unrealized cost savings. This budget pressure is a major contributor both to operational constraints and to very high levels of staff stress. Against this background, we will review the resource implications of implementing some of the strategic directions identified in this paper (e.g., strengthening our knowledge base, achieving full compliance with safeguard requirements). Future resource decisions will need to take account of these needs as well as existing budget pressures and, of course, the need to improve further our efficiency and cost-effectiveness.

49. Beyond budget, other key resources will also be aligned with our strategy. Learning lessons from the Compact, we are focusing on: **strategic staffing**--to ensure we have the

¹⁵ Based on work underway by the *Integrated Resource Framework Task Force*.

right skills and flexibility to respond to the changing needs of our clients; **matrix management**—to implement effectively our framework on selectivity and achieve a closer linkage between our sectoral/global priorities and country operations; **decentralization**--to continue the delegation of authority, functions and staff to country offices weighing, on a case-by-case basis, the advantages of local responsiveness with the need to retain our global perspective—and balancing all this carefully against cost considerations.¹⁶

50. Two other issues are also being given close attention:

- **Performance measurement.** We will use the SSP process more to track our performance as it relates to development effectiveness--including progress toward the international development goals. This will entail reviewing systematically what we are accomplishing on a sector-by-sector basis. Such assessments will include *qualitative* as well as *quantitative* dimensions. We propose to discuss these sectoral assessments and other cross-cutting themes with the Board on a regular basis--and this will enable a more strategic dialogue to take place.
- **Strengthening management.** Successful implementation of our strategic framework hinges crucially on clear management processes and accountability. Some of these processes have been described previously. Actively managing corporate priorities, and linking those priorities to country programs, will receive a particularly high level of management attention.

51. Finally, an effort is underway to improve the Bank Group's **organizational culture**. Our internal culture needs to become more aligned with the poverty-focused, client-oriented, and accountable institution that we aspire to be. Encouraging more open communication and transparent dialogue across the institution is a key factor. It is also important to identify concrete ways to reduce staff stress--including giving a clearer sense of priorities and making sure those priorities are backed with adequate resources. The clarification of our strategic framework, and its effective implementation, is key to addressing these issues--and to positioning the Bank Group to be even more effective in meeting the needs of its membership in the years ahead.

¹⁶ Draft Report of the *Working Group on Decentralization-Location of Work*, January 3, 2001