DEVELOPMENT COMMITTEE
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SYNTHESIS PAPER:
NEW WORLD, NEW WORLD BANK GROUP

Attached for the April 25, 2010, Development Committee Meeting is a background document entitled "Synthesis Paper: New World, New World Bank," prepared by the staff of the World Bank.

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SYNTHESIS PAPER:

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April 2010

New World, New World Bank Group

After the worst crisis in decades, the world economy faces an uncertain and uneven recovery with new risks to jobs and growth. The crisis response has shown why international cooperation -- and effective multilateral institutions -- matter. Called on to play a historically large role to protect the poor and lay the foundations of recovery, the World Bank Group has risen to the challenge: we have committed over $100 billion since the force of the crisis began.

We also got money where it was needed fast. Even though the World Bank Group has traditionally financed longer-term projects, our actual disbursements have exceeded the IMF's.

Past crises taught us to target this support where it would be most effective: to social safety nets for the most vulnerable; to productive investments in agriculture, infrastructure, and innovation as seeds of future opportunity; and to the private sector as an engine of growth. We launched creative ways to help our clients -- from the food crisis response to the IDA Crisis Response Facility and IFC's special vehicles for trade finance, microfinance, bank capitalization, infrastructure and distressed debt. This support benefited all: the recovery is demonstrating the key role of developing countries in generating new sources of demand. Over time, more and more developing countries can become new poles of growth for the global economy.

At the same time, we have not been diverted from laying the groundwork for new challenges such as combining development and climate change policies, and integrating governance, security, and development to help weak states coming out of conflict.

The crisis shows the possibilities of international cooperation, but it also underscores the need to modernize multilateralism -- and multilateral institutions -- to reflect a changing world. Addressing development challenges now requires institutions that are not only close to people in developing countries, but able to mobilize all key actors -- whether governments, the private sector, or civil society -- to address global threats together and support regional integration within a global system. It requires institutions that are innovative, adaptable, and able to seize new opportunities.

Building on our crisis response, we are putting before you a package of actions and reforms to modernize the World Bank Group. This aims to create a new Bank Group that:

- **Is strategically focused where we can add most value --** With our global reach, we can make a unique contribution to overcoming poverty through advancing inclusive and sustainable globalization, enhancing growth with care for the environment, and creating individual opportunity and hope. We can encourage the benefits of regional integration while avoiding the dangers of regional blocs by connecting regional interests to global goods. Looking ahead, we will focus on five priorities: targeting the poor and vulnerable, especially in Sub-Saharan Africa; creating opportunities for growth; promoting global collective action; strengthening governance; and preparing for crises.

- **Has 21st Century governance --** Voting power for developing and transition countries will increase to about 47.19% in IBRD, 39.48% in IFC, and about 46% in IDA. In the future, IBRD's shareholdings will reflect economic weights, contributions to IDA, and development contributions from the Bank Group's clients moving toward equitable voting power, with a review every five years. We are protecting the voting power of the smallest poor members. And we have created a third Board chair for Sub-Saharan Africa.

  Voice and balance will also be reflected through staffing, senior appointments, a focus on problem solving for clients, country ownership and a wider network of South-South (and South-North) experience, research and practice.

- **Remains financially strong --** We have developed a package that emphasizes mutual responsibility and sharing of interests. For IBRD, developing countries are enabling us to access their paid-in capital and are paying higher prices for loans while reform of loan maturity terms will be discussed in June. Developing and developed countries contribute to a selective capital increase of $27.8 billion of which $1.6 billion would be paid in and a general capital increase of $58.4 billion, of which 6%, or $3.5 billion, would be paid in and fully usable, with the remainder callable.

  We are also seeking to enhance IFC's financial capacity, through a combination of a voice reform connected to a selective capital increase of $200 million; consideration of a long-term hybrid instrument to shareholders (subject to realization of other capital options and Board review of terms and conditions and permitting significant capital treatment); and earnings retention.

  The World Bank Group responded vigorously to the crisis, but this has left us with little capacity to play a supportive role should recovery falter. We must remain capable of addressing new vulnerabilities as they arise. The Bank Group should also play a key role in supporting a sound, broad-based recovery that fosters multilateral cooperation and balanced growth. We are only seeking resources sufficient to allow a return to previous lending levels. We will also persist in exercising budget discipline.

- **Is more responsive, innovative, flexible, and accountable --** We are presenting a package of reforms that, taken together, represent the most ambitious reform agenda undertaken by the Bank Group: modernizing our products and services, fostering opportunities for innovation, and creating a new decentralization model that will enable us to apply cutting-edge skills closer to clients while gathering, customizing and spreading knowledge and experience more effectively. And we are sharpening our focus on results, opening access to our information and processes, and strengthening our governance and anti-corruption efforts.

Each part of the package is significant, and together they represent a dynamic transformation of the Bank Group. The package also has a shared balance. At a time when multilateral cooperation – from trade to climate change is struggling, the Bank Group is working as a cooperative of all its members. Each shareholder gains and all contribute.

Against this background, we ask that you:

- Support our post-crisis direction and reform agenda.

- Endorse the package of agreed reforms to voice and participation as outlined below, including a selective capital increase of $27.8 billion of which $1.6 billion would be paid in.

- Endorse the package for enhancing IBRD's financial capacity as outlined below, including a general capital increase for IBRD of $58.4 billion, of which 6%, or $3.5 billion, would be paid-in and fully usable, with the remainder callable.

- Endorse a package to enhance IFC's voice reform and financial capacity, consisting of an increase in basic votes and a selective capital increase of $200 million to boost developing and transition country ownership; consideration of a long-term hybrid instrument to shareholders (subject to realization of other capital options and Board review of terms and conditions and permitting significant capital treatment); and earnings retention.

Strategically focused where we can add most value

The Bank Group is setting clear priorities, sharpening our comparative advantages, and extending our complementarities with other institutions. As a global institution, we are uniquely positioned to reach across countries and regions to connect with other global actors and help tackle global issues. We bring worldwide catalytic and convening power to global and country problem-solving, along with global best practice services and standards. With world-class risk management and banking services, we can significantly leverage our resources and serve as an incubator for innovations in development financing, such as the Malawi weather derivative or the Caribbean Catastrophic Risk Insurance Facility. We offer a wide range of products and services, with knowledge and expertise gained globally but customized locally.

The core work of the World Bank Group is overcoming poverty and boosting growth; the question is how we can best carry out that mission in a changing world. We have identified five strategic priorities. We will tailor implementation to needs of key client groups: low-income and least developed countries, fragile and conflict-affected states, middle-income countries, and the Arab World—and will factor in gender and good governance as key cross-cutting issues.

- ***Targeting the poor and vulnerable, especially in Sub-Saharan Africa.*** Only five years remain to reach the Millennium Development Goals (MDGs), so we must intensify efforts to reach the poor wherever they are—in middle income countries, low income countries, and especially in Sub-Saharan Africa. We need innovative and targeted approaches to get the most "bang for the buck" from available resources. We need approaches that contribute to several goals at once and tap the innovation and capability of the private sector. And we must address the particular vulnerabilities of women and children and the special challenges facing the "bottom billion" living in fragile and conflict-affected states.

- ***Creating opportunities for growth.*** Sustained growth is the most robust and durable path out of poverty. Across our public and private sector arms, we will support developing countries with investments in agriculture, infrastructure, innovation and human capital. We will work to improve business environments and public spending, to build markets and invest in firms, and to foster growth that creates jobs and opportunities for all.

- ***Promoting global collective action.*** We will bring global connectivity, financial leverage and innovation, and world-class analysis and advocacy to global issues from climate change and trade, to agriculture and food security, energy, water, and health.

- ***Strengthening governance.*** We will help countries to place good governance at the heart of development programs and projects. Successful development requires local ownership, which depends in turn on governance and capacity. Corruption is a criminal waste of resources, and has a corrosive effect on public trust in government and institutions. We will assist countries to prevent and fight corruption, and will hold ourselves to the highest standards. We will help countries build open institutions for sound management of public resources, and service delivery. We will be an agent of change on governance: recovering stolen assets (StAR), preventing illegal tax havens, and managing revenues of extractive industries (EITI++).

- ***Preparing for crises.*** Countries need to lay the groundwork for crisis response before it is needed. We are developing new assessment, risk-sharing, financial, and policy tools to help countries better manage crises**.**

Within these five priorities, we will continually assess where we can have the most impact. For example, as other players have become more active in financing for priority diseases, the Bank Group is increasingly focusing on strengthening health systems. We will be selective, but our diverse client base and the interconnections of development challenges require a range of capabilities and actions. Past examples where the Bank has withdrawn – infrastructure, agriculture, or the financial sector – are now recognized as costly mistakes.

We are also ramping up our cooperation with other international organizations, stepping back where others have clear comparative advantage, leading where we are well placed to do so, and working together to solve problems. And we are using our expertise and balance sheet to partner with others to implement innovative solutions to development problems — such as creating market incentives to develop medical treatments (Advance Market Commitment for pneumococcal diseases) or new ways to finance vaccination (the International Finance Facility for Immunization).

We are bringing this same spirit of innovation and partnership to the replenishment of IDA16, set for later this year. This will be the last full replenishment before the 2015 MDG deadline. IDA resources remain essential to combating poverty in the poorest countries. We will be seeking the cooperation of all donors in this effort. We are also considering how to strengthen IDA's finances and long-term sustainability. We look forward to discussing these issues with you in the coming months.

21st Century governance

Voice and participation

A modernized WBG must represent the international economic realities of the early 21st Century. The first phase of voice reforms, completed a year ago, increased the voting power of developing and transition countries in IBRD to 44.06% and created a third chair on the Board for Sub-Saharan Africa. Part II country voting power was also increased in IDA, as countries took up allocated but unsubscribed shares. A donor trust fund assisted some IDA countries to take up their remaining shares. Shareholders also committed themselves to an ambitious second phase of reform by spring 2010.

In this second phase, we are significantly increasing developing and transition country voice across the Group, with the share in IBRD increasing to 47.19%. This realignment strengthens our ability to continue to support the smallest poor members, and demonstrates that a greater say for emerging and developing countries brings with it greater responsibility for the financial soundness of the Bank Group. It represents a balance of interests across shareholders with the aim of moving to equitable voting power in the World Bank over time.

For the 2010 IBRD selective capital increase only, realignment would be based on: economic weight calculated on the basis of a GDP blend; contributions to IDA, and development contributions from the Bank Group's clients, with measures to protect the voting power of the smallest poor members.

- ***Increasing developing and transition country voting power in 2010 to enhance legitimacy and effectiveness:***

    a. IBRD: an increase in voting power of 3.13%, bringing developing and transition country voting power to 47.19% — together the 2008 and 2010 reforms will increase it by 4.59%.

    b. IFC: an increase in developing and transition country voting power from the current 33.4% to 39.48%, through an increase in basic votes (to 5.55% from the current 250 per shareholder) and a selective capital increase.

    c. IDA: bringing the voting share of Part II countries to about 46%,

    d. MIGA: maintaining parity between developed and developing members.

- ***Dynamism:*** IBRD shareholding would be reviewed every five years to allow for changes based on the continuing economic growth and evolution of our members as well as contributions to IDA. IFC would similarly review shareholding every five years.

- ***Future IBRD Shareholding Formula:*** For the next shareholding review in 2015, shareholders will establish a work program and a roadmap to arrive at a benchmark for a dynamic formula, reflecting the principles agreed at the October 2009 Development Committee meeting in Istanbul, moving over time towards equitable voting power and protecting the voting power of the smallest poor countries.

Internal governance reform

Led by the Board, we are also working to enhance transparency and accountability of World Bank Group governance to support our overall program of reform and renewal. We are working closely with the Board on an agenda of issues for shareholder decision. These include freeing time for more strategic board discussions through conditional project approvals, clarifying the relationship between the board and management through a review of policy waivers and delegation of authority, and sharpening board oversight through a review of oversight units and enhanced performance reporting. The Board's work will further clarify the relationships among shareholders, the Board, and management to enhance stewardship of the institution and strengthen overall Bank Group corporate governance. Shareholders have reiterated the importance of an open, merit-based and transparent process for the selection of the World Bank President. The Board will put forward proposals for strengthening corporate governance and accountability for the WBG at the 2010 Annual Meetings.

Remaining financially strong

The Bank Group has provided over $100 billion in support since July 2008. Going into the crisis, we were well-capitalized, thanks to prudent policies and financial management, and could respond effectively to clients' needs. But the recovery remains fragile and uneven across regions. Should it falter in 2010 or 2011, we will not have the capacity to respond as we did in the past. We also need to be in a position to contribute to opportunities to boost global growth. To meet these needs, we have developed a package that emphasizes mutual responsibility and sharing of interests.

For the IBRD, we are seeking resources that are sufficient to return to our lending levels before the crisis. The package includes contributions from developing and developed countries through a general price increase last summer; reform of loan maturity terms to be discussed in June; releases of national currency paid-in capital; a selective capital increase from the voice reforms of $27.8 billion of which $1.6 billion would be paid in; and our first general capital increase for 20 years. We are proposing a general capital increase of $58.4 billion, of which 6%, or $3.5 billion, would be paid in and fully usable, with the remainder callable. The general capital increase would be agreed with the clear understanding that if it is no longer needed to back lending in the future, it will be redirected to other purposes as decided by shareholders, with strong consideration given to IDA transfers to support the poorest countries.

Budget discipline is also a key element of the package. Among the major international financial institutions, we have one of the slowest growing budgets, effectively flat in real terms since 1999, even while lending at record levels in fiscal 2009. The IMF budget, for example, has grown at twice the rate of the Bank's over the last decade. Going forward, we are determined to build on past efforts and to continue to maintain tight budget discipline.

We have also boosted our financial capacity by getting the most from our capital base. This includes an almost five-to-one leveraging of our capital which is considerably higher than the regional development banks; allowing reasonable flexibility in our equity-loan ratio relative to the strategic capital adequacy range; introducing a new exposure management framework to make the most efficient use of existing capital; and actively working with shareholders to release their national currency paid-in capital. The almost five-to-one leveraging of our balance sheet and the participation of other shareholders significantly multiplies any shareholder's investment: the investment of a country with a 5% share is multiplied one-hundred fold in its impact for development.

These actions allow us to make optimal use of our balance sheet to respond to the crisis, while remaining consistent with prudent financial management -- a key factor in our AAA rating. And in line with this prudent approach, we are further strengthening our financial model by synchronizing the annual deliberations on budget, pricing, and income allocations to ensure the financial sustainability of income transfers and formulating principles to link loan pricing to cost coverage.

We are also proposing to increase IFC's capital to allow us to increase financing for the private sector in the IDA countries, especially poor and risky markets; to restore financial flexibility; and to enable future growth and further mobilization of outside investors. We are proposing a package of options including a voice reform to boost developing and transition country ownership through an increase in basic votes and a selective capital increase of $200 million; consideration of a long-term hybrid instrument to shareholders (subject to realization of other capital options and Board review of terms and conditions and permitting significant capital treatment); and earnings retention.

A selective capital increase, achieved in the context of the Voice discussions, would generate usable resources. The hybrid instrument issuance would both raise capital and provide an innovative financing source for IFC, multiplying flexibility and capital-raising alternatives. This experience might be useful to other IFIs. IFC also has earnings that can build capital over time. Some shareholders have suggested that, especially given the volatility of IFC's private sector and equity earnings, IFC's policies on retained earnings should offer it flexibility to build capital internally.

Despite the constraints on IFC's capital, we have delivered more by increasing efficiency and effectiveness, keeping expenses below budget, focusing on development impact, and leading in results measurement. To enhance IFC's capital position, we have also divested mature equity investments and realized capital gains as development objectives were reached and market opportunities permitted. IFC will continue to focus on its equity strategy to further strengthen capital regeneration while optimizing capital use.

Becoming more responsive, innovative, flexible, and accountable

Our series of reforms, taken together, represents the most comprehensive reform agenda undertaken by the Bank Group. Our goal is to deliver a customized package of top quality global knowledge and financial services in real time to a growing range of clients—poor countries, fragile and small states, middle-income countries, and the private sector. Reforms encompass IBRD/IDA, the IFC, and MIGA, and while the specifics differ among the three institutions, the drivers of reform -- the need to get closer to the client, to enhance our financial services, and to better gather and disseminate knowledge and expertise -- are the same. Our four mutually reinforcing initiatives will modernize our services; enhance service delivery; speed-up processes, track results; and sustain our high fiduciary standards.

Modernizing services

Earlier reforms across the Bank Group enabled us to provide timely and record assistance to our clients. We are now overhauling Bank investment lending to focus on results, increase our speed and delivery, improve risk management, and better align our services with government priorities and partners in the field. We are also reviewing our instruments for clients, including consolidating our expanding trust fund portfolio. IFC is improving its business processes, while MIGA is modernizing its Convention.

We are also enhancing our knowledge services. This is critical for development as experiences in one country -- such as conditional cash transfers in Mexico -- can be shared with and tailored for others. The World Bank has been relatively good at sharing knowledge within regions. It must do a better job at this globally. We must ensure that we create incentives for capturing, sharing, and disseminating knowledge quickly to our staff and clients. To achieve this, a World

Bank Knowledge Strategy is revitalizing our knowledge products, strengthening our technical teams, and adding outside expertise.

The IFC has created practice groups across industry, regional, and service departments, using knowledge-sharing tools and social media to foster virtual teams. MIGA is working with the Berne Union of public political risk insurers on state of the art industry research.

Enhancing service delivery

We need to promote greater connectivity, more staff mobility, clearer accountabilities, and seamless knowledge flows. To do this, at both the Bank and IFC we are refreshing our matrix structure, clarifying roles, accountabilities, and reporting lines. We also need to reengineer our decentralization model. More than 5,000 Bank Group staff are already in the field. In the short term, we will strengthen our field presence in low-income and fragile states by moving more task management to country offices and adding country directors. But the current model of decentralization appears to have run its course. We need to combine close-to-the-client service, the ability for the client to tap top-flight global expertise quickly and easily, and strong central capabilities to guide a unified effort. In the medium to long term, therefore, we are considering an adjusted decentralized structure, perhaps through a combination of hubs, of varying size and capabilities, to complement country offices and with global-quality services.

Supporting reform

Human resource, information technology, and budget processes and policies need to keep up.

- ***Human resource*** reforms seek to recruit and retain the right diverse talent, foster career development, and enable greater flexibility and mobility, moving over time to a new global human resource framework. Promoting staff diversity will reflect better the global nature of the WBG.

- ***Information management and technology:*** a new three-year strategy supports our reform initiatives. It includes new platforms to support cooperation and knowledge, new systems for document search and retrieval, and improved connectivity for country offices and staff.

- ***Budget processes*** are being reformed to (i) strengthen the links among our priorities, results and budget allocations, (ii) expand planning and budget discussions to trust funds and other revenues (iii) and streamline and simplify budgeting, planning and performance systems, while continuing to focus on cost efficiency.

Getting results and maintaining standards

Demonstrating results is central to our credibility. To measure and track development effectiveness, we are:

- Strengthening results frameworks for all strategies and operations;

- Expanding core indicators to measure our outputs; and
- Building a results framework for tracking progress on reforms and transforming it into a corporate scorecard. The IFC already has the Development Outcomes Tracking System, considered best practice among multilateral development banks.

As we reform, we must also maintain our high fiduciary and other standards.

- In addition to beefing up IDA controls, the Board is working with us on an independent review of **oversight units** to strengthen them and remove redundancies.
- We are moving forward on **Governance and Anti-Corruption**, fully implementing the Volcker Panel recommendations and putting in place strengthened sanctions, including cross-debarment with other multilateral development banks. We are incorporating "lessons learned" into prevention planning and exploring new ways to promote accountability by corporations with which we work.
- We are developing an **integrated risk management** framework, to be reported on annually and overseen by a Chief Risk Officer.
- Finally, our new **Access to Information** policy, effective on July 1, 2010, puts us in the forefront of all U.N. and multilateral institutions by granting access to all information in the Bank's possession, other than narrowly defined exceptions.

To make sure we are achieving our vision, we will establish a Secretariat in the Bank headed by a Director to monitor, advise and report on internal reforms (timing of reforms is at Annex 1) reporting to Senior Management. An IFC Director of Change Management will oversee implementation of the IFC 2013 strategy.

Conclusion

Individually, these are transformational changes. In combination, they will modernize multilateralism in the World Bank Group. Together, they balance cooperation, dynamism and effectiveness – so that all shareholders can both benefit from and contribute to this vital multilateral institution and its mission.

Given the pace and scope of change globally, regionally, and within countries, the reforms and resources of this modernized World Bank Group cannot be static. We must continue to anticipate, reach out, listen to feedback loops, and determine how to adjust. Reforms are a process, not a conclusion.

Nevertheless, the changes underway position the World Bank Group very well to assist developing countries – and the world economy – as we move out of this crisis towards a new possibility of multiple poles of growth and opportunity. Now we need shareholder support and action.

Annex 1: Timeline for Deliverables

Reform	End Fiscal Year 2010	End Calendar Year 2010	End Fiscal Year 2011
Reforming loan maturity terms	• Bring proposal for restoration of loan maturity limits to the level before 2008 while offering borrowers the option to extend the maturity with a premium to provide augmentation of $1.2 billion of capital by FY19.		
Releasing existing NCPIC	• Work intensively with shareholders holding unreleased NCPIC to release as much as possible as soon as possible.		
Synchronizing year-end financial discussions	• Synchronize year-end discussions on budget, pricing and net income. • Discuss a sustainable financial model that unifies budget, pricing and net income decisions. • Develop pricing principles that link loan pricing to lending-related cost coverage, and consider expected losses. • Develop proposal for net income allocation principles that, subject to Board decision, place a priority on IDA transfers – after ensuring		

	adequate transfers to reserves – that would: • Support IDA transfers at a flat real level until the IBRD returns to the lower end of the capital adequacy range, currently 23%. • Allow for modest growth in IDA transfers when the E/L is within the capital adequacy range, currently between 23-27%. • Link the income allocation principles to the contingent-out mechanism where, subject to future Board decision, redirection of the GCI resources, with strong consideration to IDA transfers, would start after IBRD's E/L ratio has reached the upper bound of its capital adequacy range, currently 27%, and with a review to determine timing of the redirection taking place once IBRD reaches the middle of its capital adequacy range, currently 25%.		
Modernizing services	• Fully roll out operational risk assessment framework, new model of implementation support, and remodeled reporting framework • Establish Knowledge Council • Update Trust Fund Management Framework	• Revise and consolidate policies and procedures for investment lending • Expand to 12 the number of specified teams of global experts on high priority topics	• Agree on new results-based investment lending option • Finalize reform proposals for analytical and advisory activities

Enhancing service delivery	• Strengthen field presence in low-income and fragile-states, especially Africa, by moving more task management to the field • Increase number of country directors in Africa • Establish accountability framework for Bank operations • Establish matrix leadership team	• Identify “early movers” to gain implementation experience for new decentralization model on a small scale, including establishment of at least one subregional hub in Africa to serve fragile states • Increase cross support by high-end staff and monitor implementation • Launch IFC (i) new industry groups and (ii) Istanbul operating center	• Approve new decentralization approach, including a phased and costed transition and implementation plan to commence in FY12 • Implement organizational plan to rationalize sector managers’ span of control • Establish framework for network accountability including for knowledge
Enabling systems	• Consolidate discussion of net income allocations, pricing, and budget • Institute annual corporate review of managerial bench strength • Launch Information Management Technology strategy for integration and standardization • Implement WBG Dashboard for decision support • IFC roadmap for IFC 2013 recommendations and budget proposals, including cost implications of IFC 2013	• Operationalize Corporate Scorecard • Implement new recruitment process aimed at reducing cycle time • Expand use of clustered recruitment • Enhance control and knowledge transfer through implementation of new document retrieval and search system • Launch new IFC performance management cycle	• Finalize new compensation and benefits framework for approval

Transparency, accountability, and results	• Implement Access to Information policy • Establish external appeals committee for access to information policy • Establish secretariat to monitor, advise and report on internal reforms • Put in place sanctions reform, including cross-debarment • Develop and report on core indicators in four sectors for IDA	•Complete IDA controls effort • Conduct an independent review of oversight units agreed with the Board • Appoint a World Bank Group Chief Risk Officer, who will annually publish an integrated Risk Monitoring Report • Complete first Annual Results Report • Proposals for strengthening corporate governance and accountability (2010 Annual Meetings).	• Implement fully the Results Agenda by establishing corporate-level reporting framework and issuing annual results reports. Expand number of sectors with core indicators to seven