ASSESSMENT OF THE
STRATEGIC COMPACT

March 13, 2001

International Bank for Reconstruction and Development
International Development Association
Strategy and Resource Management Vice Presidency
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This report is the product of a Bank-wide team effort, with inputs provided by many VPUs across the Bank. It was prepared by a team managed by Ian Porter that included: Bahjat Achikbache, Nazir Ahmad, Irfan Aleem, Loic Bornard, Constantine Chikosi, Concetta Denaro, Cynthia Haddock, Jeannie Egan, Wendy Jarvie, Magdalena Kusemileva, John Lavelle, Klaus Lorch, Louis de Merode, Glenn Miles, Aurora Nieto, Michael Pollock, William Rex, Bruce Ross-Larson, Sudip Roy, J.P. Singh, Cindy Suh, Donna Thompson, and Yoshine Uchimura. Anil Sood, Vice President of SRM, guided the overall effort. Interim findings were discussed with the Executive Directors in December 2000 and their helpful suggestions and comments, as well as those of many managers and staff, have been taken into account in this report.
ACRONYMS

ACS  Administrative Client Support
APL  Adaptable Program Loan
AVU  African Virtual University
CAO  Chief Administrative Officer
CAS  Country Assistance Strategy
CDF  Comprehensive Development Framework
CER  Cost-Effectiveness Review
CO   Country Office
CRM  Corporate Resource Management
CTF  Consultant Trust Fund
EDI  Economic Development Institute
EDP  Executive Development Program
ESW  Economic and Sector Work
FAC  Finance, Administrative and Corporate
FSAP Financial Sector Assessment Program
GDLN  Global Development Learning Network
GDN  Global Development Network
GICT  Global Information and Communications Technology
GSD  General Services Department
HIPC  Heavily Indebted Poor Countries
HRS  Human Resources
IAD  Internal Auditing Department
IMF  International Monetary Fund
ISG  Information Solutions Group
ISR  Information Systems Renewal
LIL  Learning and Innovation Loan
LTC  Long-Term Consultant
MOU  Memorandum of Understanding
NGO  Non-governmental Organization
NLS  Non-lending Services
NRS  Non-Regular Staff
NSA  New Spending Authority
NVP  Network Vice President
OED  Operations Evaluation Department
OPE  Overall Performance Evaluation
OPS  Operational Policy and Strategy
PACT Partnership for Capacity Building in Africa
PCD  Project Concept Document
PBM  Performance-Based Management
PRSP  Poverty Reduction Strategy Paper
QAG  Quality Assurance Group
RM  Resource Management
RVP  Regional Vice President
SAP  Enterprise Software Package
SRM  Strategy and Resource Management
SRP  Staff Retirement Plan
VPU  Vice Presidential Unit
WBI  World Bank Institute
WDR  World Development Report
WPA  Work Program Agreement
EXECUTIVE SUMMARY

1. The Strategic Compact, launched in April 1997, was a compact “between the Bank and its shareholders: to invest $250 million in additional resources over a three-year period to deliver a fundamentally transformed institution—quicker, less bureaucratic, more able to respond continuously to changing client demands and global development opportunities, and more effective and efficient in achieving its main mission—reducing poverty.”\(^1\) The Compact was ambitious in both its timing and scope and focused on the implementation of four priority change programs: refueling current business activity; refocusing the development agenda; retooling the knowledge base; and revamping institutional capabilities. During Compact implementation, the Bank was also called upon to respond to additional challenges including assisting in the international response to the East Asia financial crisis and major post-conflict situations and natural disasters, accelerating work on making debt relief deeper, broader and faster and responding to rising expectations for how the Bank should work in partnership with others, as reflected in the Comprehensive Development Framework and Poverty Reduction Strategy Papers.

2. This assessment of the Compact concludes that the framers of the Compact were essentially correct in their vision and in the formulation of the key tenets of change. As indicated in the attached highlights, the quality of the Bank’s work has improved significantly and the institution is much more adept in dealing with a world where client demand has changed, and where its own comparative advantage needed to shift. The Bank has also returned in FY01 to the same level of net administrative budget in real terms as in FY97. In the course of implementing the Compact, the Bank has learned that organizational and cultural change of such magnitude is nearly always much more difficult and slower in practice than is usually anticipated. Efficiency gains have been difficult to realize, and concerns remain about underinvestment in some core activities, the complexity of some business processes, and the levels of staff morale and overload. Nonetheless, the Compact has allowed the Bank to reorient itself in fundamental ways and achieve many of its short term goals. Having laid the foundation for future change, it now has an opportunity to build on and consolidate the progress, to address deficiencies discussed here, and to act on the lessons learned.

Overview of Progress

3. Refueling the Current Business Activity committed the Bank to revitalize existing lines of business by enhancing quality, improving client responsiveness and operational efficiency and shifting resources to the front-line. Major gains in various dimensions of the quality of lending and non-lending services have indeed been made. Quality at entry has improved. Projects at risk have declined. The proportion of exiting projects with

\(^1\) The Strategic Compact: Renewing the Bank’s Effectiveness to Fight Poverty, pg. 1 ("Objective of the Compact: Renewal for Effectiveness"), 13 February 1997.
satisfactory outcomes has risen. The quality of economic and sector work (ESW) and country assistance strategies (CASs) has also improved significantly. All of these improvements can be expected to translate into improved results on the ground. Client responsiveness as measured by the time taken to prepare, appraise, and approve projects has also improved, as has the efficiency of ESW. But other operational efficiency gains have been less than expected; and the increased emphasis on compliance with fiduciary and safeguard policies has added to the cost of lending and supervision. The share of the budget going to the front-line has increased but by less than the Compact target, and this combined with the need to allocate resources to new priorities has resulted in expenditures for lending and economic and sector work (ESW) now being below what was anticipated under both the Compact and the Cost Effectiveness Review (CER). Lending commitments, after reaching historic levels in FY98 and FY99 in response to the financial crisis, fell to below pre-Compact levels in FY00 and are projected to remain below Compact expectations in FY01 and more in line with past experience.

4. **Refocusing the Development Agenda** responded to the changes in the development landscape by targeting resources to high priority sectoral and thematic initiatives, investing in the development of new products and services, and enhancing partnerships. The Bank has more effectively incorporated the targeted sectors and thematic areas (particularly the social dimensions of sustainable development, financial sector development, Africa capacity building and anti-corruption) into its overall work program, and in many cases expanded activities beyond Compact expectations. The Bank has also improved its capability to respond to crises and help prevent them; it has expanded its post-conflict lending and advice; under its HIPC initiative the Bank is helping the international community to provide deeper, earlier and broader debt relief; and the Bank has demonstrated its responsiveness to taking on new initiatives, including playing a leadership role in the global fight against HIV/AIDS. The Bank has significantly diversified its lending and non-lending products to include Learning and Innovation Loans and Adaptable Program Loans, Special Structural Adjustment Loans, new financial products and several initiatives to improve diagnostic work. It has also strengthened partnerships at both country and global levels. All of these initiatives reflect a major refocusing and broadening of the development agenda which is expected to have a substantial developmental impact. At the same time, the specific costs of a lot of this new work, its implications for the Bank’s ongoing work and how the Bank should be resourced and managed to deliver a much broader range of services have not been adequately addressed, resulting in high levels of stress in the organization.

5. **Retooling the Knowledge Base** identified three broad thrusts for action: building a world-class knowledge management program; expanding and strengthening the EDI (now WBI); and producing a *World Development Report* to advance the understanding of knowledge as an enabler of development. Successful efforts have been made to build up the Bank’s knowledge-sharing infrastructure and communities (thematic groups), and the Bank has received a number of external awards for its various initiatives and websites. The WBI expanded its training programs for clients and staff, and significantly increased the number of students served at a lower unit cost. The WDR on knowledge has strengthened the Bank’s efforts in this critical area and led to follow up work in a number
of countries in East Asia, Latin America and Africa. Over the past five years numerous other initiatives to leverage technology and knowledge for development have developed around the Bank and some are now becoming independent of the Bank and rooted in partnerships with other institutions to ensure their sustainability. It is now important to evaluate and consolidate the variety of activities that are underway, rigorously assess their benefits and costs and root them firmly in client demand and Bank country programs. It is also important to recognize that the challenge is much bigger than “knowledge management” and that the Bank needs to focus not just on knowledge sharing but on the broader cycle of creating, sharing and applying knowledge and to consider the balance and effectiveness of its investments in each of the phases of the knowledge cycle.

6. **Revamping Institutional Capabilities** was intended to create the institutional enablers of a substantially more effective, client-focused, agile, and cost-efficient Bank. Much has been achieved but more remains to be done. The institution has shifted toward strong country directors—a large number of whom are now located in-country—and a matrix organization which combines the regional/country operational focus with the sectoral and global expertise of the Bank. Large investments were made in staff development, and 1/3 of the Bank staff turned over during the Compact period, resulting in a modest shift to newly-targeted skills, but little change in the overall staff size or the proportion of the administrative budget expended on staff. The number of regional staff in country offices has increased significantly. Additional impetus was placed on performance management—but while individual units developed their own mechanisms by and large autonomously, there has to date been less progress at the institutional level to fully develop and consistently use a corporate scorecard to measure progress and reallocate resources. The speedy development of the SAP enterprise software package was a major achievement, but its operationalization has proved to be extremely difficult, resulting to date in less than the projected efficiency gains. Other savings projected in the CER were also only partially realized. Savings were generally most achievable when they were targeted to a single business unit, and accountability was clear. Savings were least achieved when it involved multiple units, because accountabilities were ill-defined or inadequately tracked and managed. More generally it is clear that some of the implementation, transition, and culture challenges associated with revamping institutional capabilities were underestimated; and the necessary linkages, consistency, and sequencing were not always foreseen or managed, leading in many cases to higher costs, staff stress, and to a perception among staff that changes have been episodic rather than continuing and purposeful.

7. In sum, the Bank’s effectiveness as a development institution in reducing poverty has improved significantly over the Compact period, as evidenced in quality ratings and the expansion in the Bank’s portfolio of products and services. The Bank has also delivered on its commitment to return in FY01 to the FY97 net administrative budget in real terms. These are important gains. In terms of efficiency, however, the Bank has not achieved all the expected gains and a number of new priorities and processes have increased the complexity and the cost of doing business. Competing resource pressures have reduced funding for core building blocks of the Bank’s comparative advantage,
particularly analytic work and lending development. While progress has been considerable, greater attention could have been paid to validating key expectations (e.g., the realism of the savings targets and timeline of the CER, the cost estimates of some investments), and making adjustments as necessary. In addition, not enough progress has been made in resolving issues of staff overload, morale, trust, and the disconnect between the Bank’s espoused culture and the way people behave with each other.

**Lessons Going Forward**

8. To further enhance the Bank’s effectiveness, improve efficiency, and ensure sustainability, the Compact experience suggests important lessons for the post-Compact era. These lessons reinforce many of the messages that are now emerging from other reports and task forces, including the Annual Review of Development Effectiveness, the Annual Review of Portfolio Performance, and the Middle Income Task Force Report, as well as the ongoing work on new deliverables, cost of doing business, decentralization and matrix management. They are lessons that have already been taken into account in the preparation of the Strategic Framework Paper, in the discussions at the Strategic Forum 2001 and in the follow-up work to the Forum. They will also be reflected in the Strategic Directions Paper and the World Bank Programs and Budgets Paper, thereby facilitating a smooth continuum from the Compact to the Bank’s future strategy and work program.

9. **Corporate leadership needs to establish and implement better processes for strategic decision-making.** The ongoing integrative and guiding function of the corporate leadership needs to be strengthened. More specific and deliberate processes for effectively balancing competing priorities and alternative pathways need to be developed that guide where the Bank invests its resources and management attention and build on the progress made this year with the Strategic Framework Paper and the Strategic Forum 2001. The nature, scope, costs and benefits of new deliverables and mandates, e.g., partnerships, safeguards, knowledge management, also need to be specified, tested, and validated before mainstreaming decisions are made. In addition, the balance between spending on existing and new businesses needs to be carefully assessed.

10. **The mechanisms for ensuring implementation of chosen strategies need to be strengthened.** First and foremost, the development and allocation of the budget needs to be more clearly and explicitly driven by corporate and country strategies and priorities. In recognition of the dynamic operating environment, a more flexible rolling three-year planning and budgeting horizon needs to be adopted and has been proposed for FY02. The consistency, sequencing, and timing of strategic and other change initiatives need to be better understood by the Bank—and to reflect the change capacity of the organization. Change milestones, resource requirements, accountabilities, risks, and contingencies need to be explicitly built into the planning and implementation process. In addition to using the corporate scorecard to track long-term progress and make strategic decisions, the enhanced Quarterly Business Review process and the Dashboard need to be reinforced as key tools for the continuous management and tracking of the budget.
11. **Institutional capabilities need to be strengthened and reformed, with a convergence around best practices.** Decentralization needs to be further promoted, with the CAS process being used more explicitly to enhance the Bank’s understanding of the local environment through decentralization and its unique capacity to deliver global knowledge and expertise. Good matrix practices and behaviors need to be made the institutional norm—for sector boards, country teams, and regional sector units—and supported by appropriate budgeting and HR practices. The Bank is now in a position to build upon the enterprise-wide information systems platform now in place and continue process simplification and standardization efforts. The overall level of staffing needs to be carefully managed in relation to budget resources to assure sufficient flexibility to respond to changing client needs. The current decentralized process for staffing and skills mix decision need to be augmented by a more active involvement of regional and network management and human resources. The optimal location of staff needs to support the intended devolution of authority, ensuring that there is an appropriate balance between global and local perspectives. Finally, the Bank needs to bridge the disconnect between its espoused culture and the way people behave with one another. The Bank needs to find a better balance between the “hardware” of change (strategy, structure, process, systems) and the “software” (culture and behaviors) and reinforce necessary linkages. Behavioral and leadership learning needs to be scaled up at all levels and managers need to be helped to become more effective coaches, mentors, and personal role models. Both managers and staff need to be held accountable for their behavior. In achieving the organizational transformation, added attention needs to be given to the role of middle managers—who are in a position to ensure that Bank strategy is reflected in actual work programs, and can keep senior management abreast of the realities on the ground.

12. In conclusion, the Strategic Compact set out to fundamentally transform the World Bank’s organization, business approach, people and culture over a period of three years. The intended feat was one that no comparable organization in the public or private sphere has been able to achieve. In fact most large and complex organizations expect that it will take at least five years before organizational transformation takes hold. During Compact implementation, there were not only unanticipated external challenges, but also internal skepticism and resistance. Nonetheless, as this Assessment shows, the Bank is in many ways a changed institution. It has made very considerable progress in a relatively short time. The culture today and the focus of the Bank’s efforts are different than they were four years ago. The Bank has also put in place the foundations for future change, and it now has the opportunity to build on the progress, to address deficiencies and to act on the lessons learned.
Strategic Compact: Some Highlights

The quality of the Bank services and client responsiveness have improved significantly; and the Bank now has more staff located closer to the client.

![Quality at Entry and Quality of ESW](chart)

<table>
<thead>
<tr>
<th>Year</th>
<th>Quality at Entry</th>
<th>Quality of ESW</th>
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<tbody>
<tr>
<td>1996</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>65%</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>75%</td>
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<tr>
<td>2000</td>
<td>80%</td>
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Percentage of projects rated satisfactory for Development Outcomes by OED.

![Lapse Time Appraisal to Negotiations](chart)

Resources have been shifted to the frontline, but less than expected. Efficiency gains have also been less than anticipated. New initiatives are costing more, leaving less for lending and economic and sector work.

![Distribution of Total Bank Staff](chart)

- Resources have been shifted to the frontline, but less than expected. Efficiency gains have also been less than anticipated. New initiatives are costing more, leaving less for lending and economic and sector work.

Share of Administrative Budget

- Resources have been shifted to the frontline, but less than expected. Efficiency gains have also been less than anticipated. New initiatives are costing more, leaving less for lending and economic and sector work.

Client Services

- Resources have been shifted to the frontline, but less than expected. Efficiency gains have also been less than anticipated. New initiatives are costing more, leaving less for lending and economic and sector work.
CHAPTER 1. INTRODUCTION

Background

1.1 The Strategic Compact, launched in April 1997, was a compact “between the Bank and its shareholders: to invest now to deliver a fundamentally improved institution in the future—quicker, less bureaucratic, more able to respond continuously to changing client demands and global development opportunities, and more effective in achieving its main mission—reducing poverty.”^{2}

1.2 The Compact was a response to the diagnosis that the institution was under substantial stress and in possible decline. Close to a third of Bank-supported projects had unsatisfactory outcomes. The demand for the Bank’s standard products was flat, and its financial tools had aged—with income on a declining trend. The development paradigm was shifting, and the Bank risked losing its leadership role. The Bank’s development expertise was not being systematically catalogued or retained, and there was a lack of professional expertise in key areas, such as the social sectors. The Bank’s clients were complaining about its slowness, bureaucracy, and inflexibility. And there was visible and strident opposition to the Bank in the political milieu, as manifested by “50 Years Is Enough” and other such critics. Many of these issues had been discussed in previous Bank reports, including the “Wapenhans” report,^{3} and proposals made to address them.

1.3 In 1997, the Bank faced a critical choice. It could continue with the past pattern of incremental change, punctuated by episodic structural reorganization, which had failed to reverse the slide in relevance and performance. Or it could commit to fundamental renewal based on stronger partnerships, better products and services, new ways of doing business, more skilled and better trained staff, and greater development effectiveness. It chose the second.

1.4 Different perspectives on the role and positioning of the Strategic Compact influenced expectations. The Board and senior management viewed the Compact as a strategy and action plan for transforming the institution that built on work already underway (see Box 1.1) and for which a one-time additional investment over and above the regular budget was approved. And it is on this basis that this report assesses the Compact. However, it is important to note that some other managers and many staff understood the Compact in a more limited way as a mechanism for supporting a specific set of activities funded with an incremental budget. These differing views of the Compact resulted in part from its rapid preparation which made it difficult to have a very participatory design process. The differences in perspectives have continued through implementation and have impacted on the overall effectiveness of the Compact.

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^{2} The Strategic Compact: Renewing the Bank’s Effectiveness to Fight Poverty, pg. 1 ("Objective of the Compact: Renewal for Effectiveness"), 13 February 1997.

Box 1.1. Prelude to the Strategic Compact

The Bank’s leadership began to articulate aspirations of fundamental redirection as early as 1994—aspirations that gained fresh urgency and definition with the appointment of Mr. Wolfensohn as President in 1995.

The World Bank Group: Learning from the Past, Embracing the Future was published in July 1994 and included the following six guiding principles:

1. Selectivity
2. Partnership
3. Client Orientation
4. Results Orientation
5. Cost Effectiveness
6. Financial Integrity

The Renewal Process was initiated in January 1996 and included the following key actions:

2. Launch of regional renewal—starting with Africa in mid 1996.
3. Creation of networks—starting with Human Development in Fall 1996.

Assessment Objectives

1.5 In the above-mentioned context, the objectives of this assessment of the Compact are to:

- Review the context, design, and aspirations for the Compact.
- Assess its implementation and, to the extent possible, its impact.
- Assess the overall effectiveness, efficiency, and sustainability of the changes advanced.
- Extract lessons and implications for the future, and provide relevant input to future strategic discussions between the Board and Management.

1.6 The report draws on quantitative evidence and expert judgments. In many instances, precise quantitative data are not available or of sufficient quality, but directional assessments can be made nonetheless. All evidence is from existing data sources. No new formal surveys have been commissioned. Some primary analysis is integrated with the analysis already available within the Bank. This includes Operational Evaluation Department (OED) and Quality Assurance Group (QAG) reviews, as well as the completed and ongoing work of various task forces (decentralization, matrix management, new deliverables, cost of doing business). Some further analysis of staff surveys (1997 and 1999) and client surveys has also been undertaken. In addition, some of the original participants of Compact formulation, as well as those involved in implementation, have been interviewed, and feedback has been provided by focus groups.

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4 Particularly the Annual Reviews of Development Effectiveness and the Annual Reviews of Portfolio Performance.
CHAPTER 2. COMPACT DESIGN

Overview

2.1 The Strategic Compact focused on four priority programs:

- Refueling Current Business Activity—in order to protect the level and quality of client services;
- Refocusing the Development Agenda—to include increased attention to the changing development paradigm, including the changing roles of the private and public sectors;
- Retooling the Bank’s Knowledge Base—to ensure that the Bank’s knowledge is readily available to those who need it, inside or outside the Bank; and
- Revamping Institutional Capabilities—to realign its information systems, location of work, human resource strategy, and financial management to support a more agile, creative and client-oriented work environment.

2.2 The gross cost of the Compact, as amended following discussion with the Board, was estimated at $576 million for the period FY98-00 in FY97 prices, to be financed in part by redeployments and savings and in part by an increment to the base budget of $250 million (Table 2.1). In addition between $100-150 million was to be provided for staff separations, with the first installment of $60 million approved at the same time as the Compact was approved.

### Table 2.1: Evolution of the Projected Strategic Compact Budget, FY97–01 ($FY97 millions)

<table>
<thead>
<tr>
<th></th>
<th>FY97</th>
<th>FY98</th>
<th>FY99</th>
<th>FY00</th>
<th>FY01</th>
<th>Total FY98-FY00</th>
<th>Total FY98-FY01</th>
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<td><strong>Net Admin Budget</strong></td>
<td>1177</td>
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<td><strong>Plus:</strong></td>
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<td><strong>GROSS COST of Compact</strong></td>
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</tr>
<tr>
<td>1. Refueling current business activities</td>
<td>176</td>
<td>205</td>
<td>196</td>
<td>185</td>
<td></td>
<td>576</td>
<td>761</td>
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<td>2. Refocusing the development agenda</td>
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<td>43</td>
<td>51</td>
<td>47</td>
<td></td>
<td>226</td>
<td>295</td>
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<tr>
<td>3. Retooling the Bank’s knowledge base</td>
<td>18</td>
<td>27</td>
<td>31</td>
<td>31</td>
<td></td>
<td>76</td>
<td>106</td>
</tr>
<tr>
<td>4. Revamping institutional capabilities</td>
<td>37</td>
<td>57</td>
<td>45</td>
<td>39</td>
<td></td>
<td>139</td>
<td>178</td>
</tr>
<tr>
<td><strong>Minus: REDEPLOYMENTS SAVINGS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>53</td>
<td>67</td>
<td>65</td>
<td>171</td>
<td>236</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>51</td>
<td>79</td>
<td>120</td>
<td>155</td>
<td>275</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equals: NET COST OVER FY97 BUDGET</strong></td>
<td>100</td>
<td>100</td>
<td>50</td>
<td>0</td>
<td>250</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td><strong>Compact Envelope</strong></td>
<td>1277</td>
<td>1277</td>
<td>1227</td>
<td>1177</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


2.3 The frame and scope of the Compact, critical drivers of design quality, were clear and compelling. The purpose was to make the Bank “a modern, responsive, highly professional institution which operates through partnerships; provides a unique set of high-quality services to clients; serves as a catalyst for public-private collaboration,
a connector among development agencies, and a builder of capacity and knowledge for the entire development community.\textsuperscript{5}

2.4 The Compact represented a fundamental commitment to transform the Bank, and this commitment was based on a clear understanding of the changing development paradigm and the consequences of not changing. It drew on an understanding of the competitive environment—and laid out a clear map of the new playing field and the dimensions of desired change. And while the Compact funding and specific action plan were for three years, the vision it sought to achieve was long-term.

2.5 The Compact addressed other drivers of design quality with varying specificity.

• On values and tradeoffs, the Compact clearly identified the end-state and gave a clear sense of overall priorities. However it did not offer a clear framework on how to trade off limited resources against multiple objectives during implementation.
• On clarity of path, major milestones were articulated, and a roadmap provided.
• On commitment, the Board, the President, and senior management were fully behind the Compact. But the thrust of the Compact was not clearly communicated throughout the organization; and as a result the energy, enthusiasm and understanding among both managers and staff varied significantly.
• On balancing rewards and risks, the Compact recognized that the environment was changing. But there was no detailed analysis of risks and uncertainties.

2.6 The intent and expected results of each of the Compact’s four program areas was well articulated.

Refueling Current Business Activity

2.7 Actions: Shift resources to the frontline; focus on quality.

2.8 Expected results: Higher quality and responsiveness, expansion of the existing business; measurable impact on poverty.

2.9 Refueling Current Business Activity committed the Bank to revitalize existing lines of business. It supported a Bankwide framework for assessing quality, and committed additional resources to deepen the analytical and lending work at the country level to grow and sustain the current business lines. It projected operational cost savings at a high level through the Bank-wide cost-effectiveness review (CER) but, in some cases, these savings were not explicitly linked to specific actions.

Refocusing the Development Agenda

2.10 Actions: Invest in new and/or underresourced sectors, partnerships, and new products.

\textsuperscript{5} Source: Strategic Compact, pg.1.
2.11 *Expected results:* Ability to respond to a broader development paradigm, more effective partnerships, and more diverse products.

2.12 Refocusing the Development Agenda was a combination of new programs and additional funds for valuable but under-resourced initiatives. It appropriately recognized the need to strengthen and recalibrate the Bank’s agenda to achieve a greater development impact and a more diverse mix of products, services, capabilities, and partner relationships. But it did not indicate what programs or activities would be given less priority. In addition, the process for managing and mainstreaming the initiatives was left unclear; and some of their resource implications were not fully addressed. Nor were there robust guidelines for dealing with unanticipated demands and new opportunities—and their implications for ongoing work.

**Retooling the Bank’s Knowledge Base**

2.13 *Actions:* Develop a world-class knowledge management system; foster collaboration and knowledge-sharing; use knowledge to improve performance.

2.14 *Expected results:* Quicker and easier access to knowledge and enhanced development impact.

2.15 Retooling the Knowledge Base recognized that knowledge was emerging as a key strategic thrust for the twenty-first century and set out to make more effective use of the knowledge capital of the Bank via better knowledge management, scaling up the Economic Development Institute (EDI)/World Bank Institute (WBI), and producing a World Development Report (WDR) on knowledge. In view of the fact that knowledge management was a new field, the approach to implementation was cautious, with an emphasis on building on current systems, expanding in stages across the institution, and being sensitive to user interest and demand. The design also recognized some of the likely tensions in knowledge management (for example that technology is an enabling factor not a solution) and that the most challenging part of a new approach to knowledge would be a culture shift “from an individualistic mode of working and storing knowledge towards a team-based, sharing mode.”

**Revamping Institutional Capabilities**

2.16 *Actions:* Shift accountabilities and resources to the field; strengthen matrix management; integrate information systems; realign human resources to new priorities; improve resource and performance management.

2.17 *Expected results:* A highly aligned and performance-based organization; modernized and efficient information and financial management practices; a collaborative culture.

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6 Source: *Strategic Compact*, pg.13.
2.18 Revamping Institutional Capabilities was critical to the New Bank, and change programs were launched on multiple fronts. The components of the change design were the right ones, but important issues of sequencing and linkages were not adequately addressed in the Compact design. Some reforms were already under way as part of the renewal process, some were initiated with the launch of the Compact, and others were designed during Compact implementation.\(^7\)

- The design of matrix management and decentralization was left at a general level. Each region and network was allowed to design its organization relatively autonomously and in a spirit of deliberate experimentation. However, the institutional process for evaluating progress and commonizing best practices was not clearly set out at the design stage and was put in place only during the course of Compact implementation.

- The design and governance of information systems renewal was clearly specified, driven by tight timescales to ensure Y2K compliance, and intended to achieve substantial cost savings. Other cost-effectiveness initiatives in the backline were also identified, but some lacked sufficient detail to ensure delivery.

- The major components of human resource reform were well identified; and the Compact made separate provision for staff separations. However, at the time the Compact was launched, the links between human resource management and budget management were not sufficiently developed.

- The resource implications of Compact initiatives were developed by sponsors, supported by action plans and to be offset by savings and redeployments. But too little attention went to the tracking and control methodology.

- The Compact committed to building a performance measurement system and to make management more performance-based.

- Many elements of a successful transformation process were initiated as part of the regional renewal process. However they were not systematically carried through into the Compact; and as a result the continuity between the renewal process and the Compact was not clear to all staff.

### Budget and Performance Targets

2.19 The Compact was specific on expected costs, projected savings and redeployments, and the need for additional funding, including that for staff separations. Indicating broad budget directions, it recognized that detailed cost and savings estimates depended on the outcome of the CER and a careful assessment of each unit’s implementation capacity and options for redeployment. It nonetheless committed the Bank to return to the FY97 net administrative budget level in real terms by FY01 (Table 2.1).\(^8\)

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\(^7\) In the Compact document some of these reforms were specifically included under Revamping Institutional Capabilities, and others were addressed separately.

\(^8\) The original budget and work-program submitted for Board approval asked for $250 million in additional funding over two instead of three years and provided an assurance that the FY01 budget would be 3% greater than the FY97 budget in real terms. However, after discussion with the Board, Management
2.20 The CER itself was issued only in October 1997. It concluded that the savings projected in the Compact could be achieved and in fact identified $170 million of potential annual savings in FY01, $50 million more than the Compact target (Table 2.2). However, ownership of savings and redeployments was unclear at the time the CER was approved, insufficient attention was given to the tracking and control methodology and, in many cases, the exact mechanisms for achieving projected savings remained vague. Many managers and staff did not understand or support the projected savings.

Table 2.2: Estimated Potential Annual Savings from the Cost-Effectiveness Review
(FY97 $ million)

<table>
<thead>
<tr>
<th>Source: Cost Effectiveness Review (R97-231)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Front-line Activities</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>Back-line Activities</td>
</tr>
<tr>
<td>Total Savings per CER</td>
</tr>
</tbody>
</table>

| Use of CER Savings:                         |
| Reallocation within Front-line              | -4   | 11   | 56   | 93   |
| Redeployment from Back-line to Front-line   | 26   | 35   | 27   | 20   |
| Reallocation within Back-line               |      |      |      |      |
| Memo Item: Total Savings per Strategic Compact | 24   | 51   | 79   | 120  |

| Source: Strategic Compact…, 13 February 1997, p. viii |

2.21 The Compact also emphasized the need for performance indicators and that results would be measured and justified by benefits to the Bank’s clients in areas of development impact, service delivery, professional excellence, resource allocation, and efficiency and stronger partnerships. It thus set stretch targets for Bank performance in client responsiveness and the main Bank drivers of project outcomes (Table 2.3).

Table 2.3: Performance Targets

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Measure</th>
<th>Baseline(^a/)</th>
<th>Target(^b/)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client responsiveness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio management</td>
<td>% meeting business standard</td>
<td>66</td>
<td>100</td>
</tr>
<tr>
<td>Lending services</td>
<td>% meeting business standard</td>
<td>63</td>
<td>100</td>
</tr>
<tr>
<td>Non-lending services</td>
<td>% meeting business standard</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>Frontline services</td>
<td>% of administrative budget</td>
<td>52(^c/)</td>
<td>60</td>
</tr>
<tr>
<td>Drivers of project outcomes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality at entry</td>
<td>% satisfactory</td>
<td>70</td>
<td>100</td>
</tr>
<tr>
<td>Portfolio management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Realism index</td>
<td>%</td>
<td>64</td>
<td>75</td>
</tr>
<tr>
<td>- Proactivity index</td>
<td>%</td>
<td>61</td>
<td>90</td>
</tr>
</tbody>
</table>

\(^a/\) FY96, unless noted otherwise.
\(^b/\) By FY01.
\(^c/\) FY97 estimate.

Source: Strategic Compact…, 13 February 1997, p. viii

submitted and the Board approved a slower than originally requested phasing of the Compact investment and a return to the FY97 budget in real terms by FY01.

CHAPTER 3. COMPACT IMPLEMENTATION AND IMPACT

A. Overview

3.1 The Bank has made substantial progress in implementing the Compact and responding to additional challenges in a rapidly changing international environment. The quality of current business has improved. The Bank has become more client-responsive and poverty-focused. It has refocused and broadened its development agenda, by investing in a number of critical sectors and turning its energies increasingly into developing partnerships and new products. It has also made significant strides towards becoming a Knowledge Bank. In addition, it has made major changes in its organizational architecture — including structural changes, changes in systems and processes, a large change in the management cadre, a major turnover and some reskilling of Bank staff, and the beginning of a change in some aspects of Bank culture. And it met the Compact targets for the administrative budget each year from FY98 to FY01.

3.2 The Bank also responded to major dislocations in the international environment since the launch of the Compact. The East Asia financial crisis dramatically increased the challenges for the Bank. There were major post-conflict situations and natural disasters which also received attention. Work accelerated on making debt relief deeper, broader, and faster. And expectations for how the Bank should work in partnership with others have risen, as reflected in the Comprehensive Development Framework (CDF) and Poverty Reduction Strategy Papers (PRSPs) and in the context of an increasingly difficult and critical external environment. As a result, the Bank’s agenda and business environment have both grown and changed.

3.3 At the same time, some of the expected benefits (including efficiency gains) from revamping institutional capabilities, including matrix management, information systems renewal, human resource reform, and resource management reform have not yet materialized; and in some cases unit costs increased. These developments have caused tremendous stress and overload on staff. They also resulted in unanticipated changes in the allocation of the budget, including less than expected expenditures on economic and sector work (ESW) and lending, which may impact on the sustainability of the gains that have been made. It is also clear that, while progress has been made, there is still much to do to turn the Bank into the highly aligned, efficient and performance-based institution that the Compact envisioned. Overall the achievements of the Compact have been significant but challenges remain. Going forward, the Bank needs to build on the positive changes while tackling the difficulties with greater commitment and learning.
B. Refueling Current Business Activity

Quality and Client Responsiveness

3.4 Refueling Current Business Activity led to major gains in quality, but progress on efficiency and reversing the decline in expenditures on ESW and lending was less than expected. The Compact provided additional resources for critical operations, for strengthening capacities in procurement, financial management, and social development, and for mainstreaming quality assurance.

3.5 Refueling Current Business Activity included a strong focus on enhancing the quality of Bank lending and non-lending services. With support from the Compact, QAG made quality a key institutional concern and established clear benchmarks for quality. And indeed, project quality has improved very substantially, as has the quality of ESW and Country Assistance Strategies (CASs) (Figures 3.1, 3.2).11

3.6 CAS quality improved significantly along several dimensions during FY98 and FY99, continuing the trend identified in 1998. CASs improved most in their treatment of participation and governance and of the social and political economy underpinnings of reform. Treatment of poverty reduction and human development also improved, especially in CASs for IDA-eligible countries, but the treatment of gender, the environment, and the financial and private sectors has shown less progress. There were significant improvements in the building blocks of CAS program design and business strategy—portfolio management, lessons learned, triggers, and partnerships; however, risk analysis in CASs showed no signs of improvement.

3.7 During the Compact, greater attention was given to portfolio management, and improvements were made in realistically assessing the portfolio and addressing problem projects (Figure 3.3). OED’s assessment of exiting projects showed that 77% had satisfactory outcomes in FY00 after plateauing around 72–74% in FY97–99 (Figure 3.4).

10 Annex 1 provides a more detailed assessment of the program to refuel current business activity.

Given the risk in Bank operations, perfect scores are unlikely. But the improvements in portfolio management and project outcomes together indicate that the Bank’s development effectiveness should continue to improve.

**Figure 3.3. Realism and Proactivity Indexes**

![Graph showing Proactivity Index and Realism Index from FY97 to FY00 with a target.]

Realism Index: Problem projects as percentage of those assigned to “at risk” category. Proactivity Index: Percentage of projects rated as problem projects 12 months earlier on which remedial action has been taken.

**Source:** Annex 1, pg.6

**Figure 3.4. OED-Development Outcomes % Satisfactory**

![Graph showing percentage of projects rated satisfactory for Development Outcomes by OED from FY97 to FY00.]

**Source:** Annex 1, pg.6

3.8 Client responsiveness as measured by lapse times in project development also improved, addressing a key client complaint—the Bank’s slowness. The Bank significantly reduced the overall time taken from the project concept development (PCD) stage to Board approval, in part by cutting by half the time from appraisal to negotiations, where the bulk of the Bank’s internal reviews take place (Figures 3.5 and 3.6).

**Figure 3.5. Lapse Time PCD to Board**

![Graph showing lapse time from PCD to Board from FY96 to FY00.]

**Source:** Annex 1, pg.7

**Figure 3.6. Lapse Time Appraisal to Negotiations**

![Graph showing lapse time from Appraisal to Negotiations from FY96 to FY00.]

**Source:** Annex 1, pg.7

3.9 The program of client surveys does not yet include time series data for the same client countries and therefore changes in client perceptions of Bank performance cannot be measured. But a review of the aggregate results of surveys conducted in FY99 and FY00 suggests that clients give the Bank “high marks” for supporting social development programs, attracting investment for development, establishing physical infrastructure, and bringing about economic growth (Table 3.1). The review also suggests that while the Bank is relatively effective in assisting countries in strengthening their policies and structures for economic growth, the Bank is not perceived as being as strong in its main mission of supporting poverty reduction. This is a finding that clearly needs additional
analysis and monitoring as further surveys are completed. The Bank also needs to improve its effectiveness with respect to civic participation—and be more persuasive to its clients regarding governance, public sector management, and civic participation.

Table 3.1: Client Survey Results: The World Bank’s Overall Contribution

<table>
<thead>
<tr>
<th>The World Bank’s contribution in</th>
<th>Share of countries considering</th>
<th>Bank effective^b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helping to reduce poverty</td>
<td>57%</td>
<td>33%</td>
</tr>
<tr>
<td>Helping to bring about economic growth</td>
<td>90%</td>
<td>71%</td>
</tr>
<tr>
<td>Helping to improve governance</td>
<td>18%</td>
<td>53%</td>
</tr>
<tr>
<td>Helping to strengthen the public sector</td>
<td>29%</td>
<td>67%</td>
</tr>
<tr>
<td>Helping to strengthen the private sector</td>
<td>67%</td>
<td>62%</td>
</tr>
<tr>
<td>Helping to attract investment for development</td>
<td>76%</td>
<td>81%</td>
</tr>
<tr>
<td>Supporting programs that include all social groups in development (such as education, health care, specific assistance for women and men, and social protection)</td>
<td>76%</td>
<td>94%</td>
</tr>
<tr>
<td>Helping to safeguard the environment</td>
<td>43%</td>
<td>52%</td>
</tr>
<tr>
<td>Helping to strengthen civic participation in national development efforts</td>
<td>10%</td>
<td>14%</td>
</tr>
<tr>
<td>Helping to establish the physical infrastructure essential for future development</td>
<td>76%</td>
<td>67%</td>
</tr>
</tbody>
</table>

a. Share of countries rating Bank’s contribution above 4.0 on a five-point scale with fairly important = 4 and very important = 5.
b. Share of countries rating Bank’s effectiveness above 3.0 (or above average) on a five-point scale with average = 3, fairly effective = 4, and very effective = 5.

Note: Based on survey results from 21 countries.
Source: Annex 1, pg.8

Operational Resources

3.10 The overall frontline/backline ratio improved from 58% in FY97 to 61% in FY00, but by less than what was targeted under the Compact. 12 Operational budgets (which include regions, networks, and other operations) are now 80% of the total budget compared with 77% in FY96. This reflects the fact that a decline in the regions share of net administrative expenditures from 64% in FY96 to 62% in FY00 has been more than offset by an increase in the share of networks from 6% to 10% and of other operations from 7% to 8% over the same period. Within operational budgets, supervision of the portfolio has been a priority, and its budget share has been maintained. Refocusing the development agenda has required a shift of resources to other client services (Figure 3.7). 13 The share of other support and overhead has declined while the share of staff training has increased. The shares of lending and ESW in operational budgets have gone down substantially.

12 Annex 1 provides more details on these numbers and how they compare with previous estimates.
13 Other client services include technical assistance and aid coordination, country program support, client training, knowledge management, sector strategy, quality assurance, external partnerships and outreach, business development, network council and sector board activities and research.
3.11 As a result, total expenditures for lending preparation (direct costs in nominal terms)\(^\text{14}\) declined to $118 million in FY00, from $142 million in FY96 and $150 million in FY93 (Figure 3.8). And total expenditures for ESW were $72 million in FY00, up from $64 million in FY96 but down from $99 million in FY93.\(^\text{15}\) Project supervision expenditures, by contrast, have increased—from $111 million in FY93 to $119 million in FY96 and $152 million in FY00. So have other client services—from $99 million in FY93 to $117 million in FY96 and $228 million in FY00.

3.12 Between FY93 and FY98, it appears that the decline in Bank budget expenditures on lending preparation and ESW was partially offset by an increase in consultant trust.

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\(^{14}\) To permit time series comparisons with FY93, in this report and except where otherwise noted, budgetary expenditure figures by service category include direct costs only. As a result the absolute numbers may differ from numbers quoted in recent budget reports which may include both direct and indirect costs.

\(^{15}\) In real terms this means that lending and ESW expenditures in FY00 were 67% and 63% respectively of their FY93 levels.
funds (CTF). CTFs are used primarily for supervision, lending and ESW, following guidelines set by the donor government. The overall level of CTFs increased from $26 million in FY93 to $58 million in FY96 and $92 million in FY98, when they accounted for 18% of total client service expenditures (Figure 3.9). However, since FY98, the level of CTFs has declined to less than $60 million and further declines in FY01 are likely, thereby enhancing the budget pressures being experienced for lending, ESW, and supervision.16

![Figure 3.9. Client Services and Consultant Trust Funds ($ million)](source: Annex 1, pg.13)

**Operational Efficiency**

3.13 The CER committed the Bank to a significant improvement in the efficiency both of operations and of back-line units and services. In the case of operations, the following areas were highlighted and targets for FY00 savings were established (in FY97 dollars):

- Reduced lending (preparation) costs: $8 million.
- Better pipeline management: $14 million.
- More efficient supervision: $11 million.
- More efficient ESW: $8 million.

3.14 In the case of lending, the average costs of lending preparation between FY96 and FY99 went down, both overall and for specific instruments: between FY96 and FY99 average lending completion costs for adjustment loans fell from $402,000 to $271,000, and for specific investment loans fell from $366,000 to $295,000; learning and innovation loans cost $132,000 in FY99. These declining trends were reversed in FY00 (Figure 3.10). Several factors counterbalance each other—increased efficiency (as reflected in reduced lapse times) has reduced costs, while the need to ensure compliance with safeguard and fiduciary policies is increasing costs. It is also possible that “staff overload” is hiding the real unit costs for lending. For example, a recent survey indicated

16 Disbursements of other Bank–executed trust funds in the Regions have also declined from a peak of $190 million in FY96 to $83 million in FY00; and disbursements of country-executed trust funds were $186 million in FY00, compared with $199 million in FY96.
that unrecorded staff overtime increased from 18% to 25% of recorded work time between late 1998 and early 2000.\(^\text{17}\)

Figure 3.10. Average Lending Preparation Costs\(^\text{18}\)

![Graph showing average lending preparation costs from FY93 to FY01.]

Source: Annex 1, pg. 17

3.15 During the Compact period, managers have focused on cleaning up the portfolio and dropping projects and this was expected to lead to a reduction in dropped-project costs. In reality dropped-project costs rose to $31 million in FY99—from $26 million in FY96 and $16 million in FY93. However, an informal survey of the reasons for FY00 dropped projects shows that in many cases developmental benefits are still likely to occur (Table 3.2). Explanations were obtained for 157 projects dropped in FY00, out of a total of 235. Of the 157, 22 (14%) were determined not to have been dropped or were clerical errors. Of the remaining 135 projects, in 52 cases (or 39%), the government went ahead and utilized the results of the work by incorporating them in other Bank operations or by using other sources of funding. A system is now being put in place to regularly monitor the reasons for dropped projects.

Table 3.2: Reasons for Dropped Projects, FY00

<table>
<thead>
<tr>
<th>Reasons for Dropping a Project</th>
<th>No. of Projects where Reason Applied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Govt. utilized results of project prep. by incorporating into other Bank operations or utilizing alternative sources of funding (incl. government own funds).</td>
<td>52</td>
</tr>
<tr>
<td>Requirements at the project level not met</td>
<td>24</td>
</tr>
<tr>
<td>Change in Bank priorities (does not fit in current CAS)</td>
<td>15</td>
</tr>
<tr>
<td>Government financial constraints—reached borrowing ceiling and/or lack of counterpart funds.</td>
<td>15</td>
</tr>
<tr>
<td>Change in government priorities</td>
<td>14</td>
</tr>
<tr>
<td>Requirements at the country level not met</td>
<td>10</td>
</tr>
<tr>
<td>Others(financial crisis, civil war, etc.)</td>
<td>5</td>
</tr>
</tbody>
</table>

Note: Based on an informal survey of Country Directors  
Source: Annex 1, pg. 19

\(^\text{17}\) Survey conducted for phase one of the report of the Costing Group: *Improving Performance Against Fiduciary and Safeguard Policies.*  
\(^\text{18}\) Officially referred to in the Bank as lending “completion” costs.
3.16 It also appears that the Bank has not become selective in lending preparation despite the reduction in total resources for lending. Indeed, the Bank continues to work on a large number of projects even as overall resources for lending development are declining. In FY93, FY96 and FY99, the Bank spent resources on preparing over 1,500 projects. Average expenditures for projects have gone down from $84,000 in FY93 to $75,000 in FY96 and $66,000 in FY99. Projects with expenditures of less than $10,000 increased from 25% of the total in FY93, to 30% in FY96 and 35% in FY99.

3.17 Supervision costs per project have also risen steadily (Figure 3.11). Higher safeguard, fiduciary, and participation costs are contributing to this. And expected savings in supervision from decentralization and changes in procurement review procedures have either not yet materialized or been superseded by other developments.

![Figure 3.11. Supervision Effort](source: Annex 1, pg. 16)

3.18 The nature of ESW has changed—from “reports” toward “activities.” There has also been a decline in the costs of a typical report. Managers have been cleaning up the ESW program and dropping low priority tasks. In FY00, dropped reports accounted for $3.8 million (Figure 3.12), significantly lower than the $7 million annual cost in 1995–98. A system is being put in place to better monitor the reasons for dropping reports (both positive and negative).

![Figure 3.12. Dropped Reports Cost](source: Annex 1, pg. 22)
3.19 Overall it is clear that only some of the operational savings expected from the CER have been realized, in particular savings in ESW. Part of this is due to external factors which were not anticipated at the time of the CER. While loan processing time has been reduced, the increased emphasis on compliance with fiduciary and safeguard policies have added to the cost of lending and supervision. In addition the CER was not adequately disseminated and discussed with the result that middle managers and staff in the regions were not adequately informed of the means to improve cost effectiveness, though they do appreciate its importance.

Lending

3.20 The original Compact document anticipated that the level of lending would increase as a consequence of improvements in quality and client responsiveness but it did not provide specific lending projections. However, the CER did project a significant and specific increase in lending (Figures 3.13 and 3.14). Total lending did increase to unprecedented levels in FY98 and FY99 as a result of the Bank’s response to the financial crisis. But it has since fallen back to below pre-Compact levels, which is more in line with past experience. Many demand factors may explain this: an improved external economic environment, the increased availability of private financial resources, and country-specific issues of political transition, conflict, or weak policy performance. Changes in the way the Bank does business and diminished budget resources for ESW and lending may also be contributing factors.

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![Figure 3.13. Lending Volume (No. of Projects)](source: Annex 1, pg. 24)

![Figure 3.14. Lending Volume (IBRD/IDA Commitments)](source: Annex 1, pg. 24)

3.21 In conclusion, it is clear that efforts to refuel current business did lead to a major improvement in the quality of the Bank’s operational work. But they did not lead to all the expected efficiency gains in operations nor to the refueling of resources for analytic work and lending and the anticipated increase in the quantity of some of these services. Going forward, it will be critical that these business lines are adequately resourced. It will also be important that quality assurance mechanisms continue to be adequately resourced and built into regional and network as well as corporate business processes.
C. Refocusing the Development Agenda

3.22 Substantial progress has been made in refocusing/broadening the development agenda, through sectoral and thematic initiatives, partnerships, and new products. The overall level of Bank services in targeted sectors and thematic areas has increased. New products have been purposefully developed and in some cases mainstreamed. The processes and the requisite infrastructure to foster ongoing innovation are being developed. And partnerships have been strengthened at both country and global levels. However, the resource implications of much of this work were not adequately assessed, resulting in serious levels of stress and strain in the organization.

Sectoral and Thematic Initiatives

3.23 Significant progress was made in implementing the Compact’s sectoral and thematic initiatives. But there has been much variation in the experience of specific initiatives, with some such as the Highly Indebted Poor Countries (HIPC) initiative more than meeting expectations, rural development not meeting expectations, and others that have performed well so far but where there are concerns about mainstreaming and sustainability. In the case of sectoral initiatives, the level of lending did increase in FY98-00 relative to FY95-97, both absolutely and as a share of total Bank lending (Figure 3.15). But this increase was entirely a result of an increase in adjustment lending for finance and social protection in response to the East Asia financial crisis.

Figure 3.15. Sectoral Lending Commitments for Targeted Sectors
Aggregate Increase/Decrease for Periods FY98-00 Vs. FY95-97

Source: Annex 2, pg.2

Annex 2 provides a more detailed assessment of the program to refocus the Bank’s development agenda.
3.24 **Social Development.** The specific social development initiatives to be supported by the Compact were detailed in the May 1997 Social Development Task Group Report\(^{20}\) and have been implemented at a cost of $47 million. There has been good progress in mainstreaming the use of social assessments in lending and ESW—and in encouraging more participation in CAS and PRSP preparation. In addition, a post-conflict unit and fund was established, which has helped support the Regions in providing post-conflict lending and advice to 35 countries, compared with 15 in 1996. The Compact has also supported the strengthening of the NGO/Civil Society unit. Compact funds and a strong sector board were instrumental in moving the Bank’s social development agenda forward. However, current budgetary constraints at the regional level may impact on the continued funding of these initiatives, particularly those that are not mandatory.

3.25 The Compact did not focus on issues of social safeguard policies, including their important developmental benefits and the reputational risks that any non-compliance with such policies might pose for the Bank. During the course of Compact implementation, however, this situation changed and the Bank significantly increased the focus on compliance with social safeguard and other Bank policies. The Bank is still grappling with the complexities of safeguard policy recasting and implementation, but the added emphasis has certainly improved the attention given to the environmental, social and fiduciary aspects of the Bank’s work, and reinforced the Bank’s anti-corruption agenda. It has also had significant resource implications that were not anticipated when the Compact was launched.\(^{21}\)

3.26 **Rural Development.** The Compact initiative for rural development was aimed at helping implement the priorities established in the Sector Strategy “Rural Development: from Vision to Action.”\(^{22}\) Under this initiative, which cost $48 million, the rural research program was revitalized, and there was an increased focus on rural activities in 18 countries. Between FY96 and FY99, there was also a progressive improvement in the quality of the portfolio. But in FY00 the average rating of completed projects went down, as did QAG’s performance rating for rural projects; and the fact that this portfolio is judged to have less sustainable impact than most other areas of Bank lending continues to be a concern. In addition it appears that the early momentum of this initiative is not being maintained. Lending for agriculture and rural development in FY00 declined significantly, and less priority is going to rural development in CASs. A review of the rural sector strategy, now under way, is analyzing the rural sector portfolio and endeavoring to understand more clearly the roots of problems that exist.

3.27 **Financial Sector Development.** The Compact identified financial sector development as a new initiative. A few months into implementation, however, the Bank’s work in the financial sector was radically expanded and reshaped in response to the East Asia financial crisis. The Bank responded swiftly to the crisis by providing 19 adjustment and technical assistance loans to countries in East Asia and subsequently

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\(^{20}\) Task Group Report: *Social Development and Results on the Ground* (Sec M96-1063), October 18, 1996.

\(^{21}\) The working group on “Cost of Doing Business: Fiduciary and Safeguard Policies and Compliance” is now examining this issue in more detail.

\(^{22}\) “Rural Development: from Vision to Action,” R97/25, February 12, 1996
in Latin America—$11 billion in East Asia, and $4 billion in Latin America. These loans absorbed more than $14 million in processing and supervision costs in FY98–00. The Bank also provided short-term specialist advice to clients in managing the financial crisis and in improving the long-term stability of their financial systems.

3.28 In parallel with the response to the financial crisis, the Bank moved ahead with enhanced financial sector work in close collaboration with the International Monetary Fund (IMF), emphasizing countries vulnerable to financial crises. The Financial Sector Assessment Program (FSAP) was undertaken on a pilot basis for 12 countries in FY00; additional assistance was provided to non-FSAP countries (including Brazil and India). The Bank also engaged with external partners in the implementation of standards and codes for best practice in bank supervision, securities regulation, and insurance. And it conducted a best practice review of financial sector tools and policies.

3.29 To help fund all of these activities the Bank spent $16 million under the Compact initiative. An additional $50 million of New Spending Authority (NSA) was approved by the Board in January 1998. There are now concerns about the mainstreaming and sustainability of important aspects of the Bank’s work in the financial sector, once the NSA funds have been exhausted.

3.30 **Africa Capacity Building.** Compact funds of $9 million helped launch the Partnership for Capacity Building in Africa (PACT) by enabling the Capacity Building Technical Group in the Africa Region to support the preparation of national assessments and strategies for capacity building and the setting up of national capacity secretariats. PACT was launched in June 1999, when the Board approved the first annual $30 million tranche of five-year grant funding for PACT. The PACT initiative is being implemented by the African Capacity Building Foundation, based in Zimbabwe and is being supported by a number of other bilateral and multilateral donors, in addition to the Bank.

3.31 **Anti Corruption.** The anti-corruption initiatives have been financed by $25 million of Compact funds and by an additional $7 million approved by the Board in FY00. The initiatives have led to the mainstreaming of anti-corruption activities into the Bank’s work on public sector management and to a deepening of the Bank’s knowledge of the institutional bases for corruption. Governance issues are being systematically addressed in CASs. And the Bank is now helping almost 100 countries strengthen their governance environment. The Bank is also actively supporting international efforts to combat corruption. Internally, the Bank put in place a toll-free hotline to receive reports of corruption. It also established the Anti-Corruption and Fraud Investigative Unit and strengthened the Internal Auditing Department (IAD) to conduct special audits. The additional financing, an active Public Sector Board and strong support of senior management have all contributed to the effective initiation of this work.

3.32 **Heavily Indebted Poor Countries (HIPC).** The Compact also highlighted the importance of the HIPC initiative and provided $5 million of incremental funding to the HIPC Implementation Unit, the Debt Trust Fund Unit and for administration of the HIPC Trust Fund. The HIPC initiative was enhanced in 1999 to provide deeper and faster
assistance. By the end of December 2000, 22 countries had reached their decision points under the enhanced initiative and a total of $20.3 billion of debt relief in net present value terms ($33.6 billion in nominal terms) had been committed to these countries. Combined with traditional debt relief and likely additional bilateral debt forgiveness, the HIPC initiative will reduce the debt stock of the 22 countries by almost two-thirds from $53 billion in net present value terms to roughly $20 billion. Managed by the Bank, the HIPC Trust Fund has received $2.5 billion in bilateral contributions, and about $1.3 billion from the Bank.

3.33 The experience of the sectoral and thematic initiatives of the Compact, as well as the experience of the QAG, provides some lessons about the success factors for corporate initiatives. The Bank appears to have been the most successful in cases such as HIPC or QAG or Africa Capacity Building where the initiative was viewed primarily as an “add-on” to existing programs and special institutional arrangements were made. In addition most of these initiatives had: clear objectives, a strong grounding in client needs or trends in development thinking, strong management support, a critical mass of staff with relevant skills and provision of adequate financing. The Bank was less successful with some of the other initiatives, such as rural development, that were aimed more at enhancing on-going country programs and where no special institutional arrangements were made. In such cases additional success factors would appear to include:

- greater clarity as to how such corporate priorities should be linked to the implementation of on-going programs;
- what mechanisms need to be developed to ensure the “additionality” of budget resources; and
- how such initiatives can be mainstreamed, where appropriate, without losing momentum.

3.34 It is also apparent that the larger the number of special initiatives, the greater the organizational and management challenge, and the greater the likelihood that there will be inadequate management attention to ongoing work.

New Products and Services

3.35 During the course of Compact implementation, the Bank significantly diversified both its lending and non-lending portfolio (Table 3.3), as well as diversifying its range of loan products.\(^{23}\)

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\(^{23}\) See Annex 2, pg. 14.
Table 3.3: Lending and Non-lending Products
(number of products)

<table>
<thead>
<tr>
<th>Product</th>
<th>FY96</th>
<th>FY97</th>
<th>FY98</th>
<th>FY99</th>
<th>FY00</th>
</tr>
</thead>
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<tr>
<td><strong>Lending Instruments</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Adjustment loans</td>
<td>30</td>
<td>30</td>
<td>37</td>
<td>48</td>
<td>23</td>
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<tr>
<td>Specific Investment Loans</td>
<td>168</td>
<td>171</td>
<td>174</td>
<td>134</td>
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<tr>
<td>Adaptable Program Loans</td>
<td>-</td>
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<td>10</td>
<td>28</td>
<td>27</td>
</tr>
<tr>
<td>Learning and Innovation Loans</td>
<td>-</td>
<td>-</td>
<td>14</td>
<td>27</td>
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<tr>
<td>Others</td>
<td>58</td>
<td>40</td>
<td>50</td>
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<tr>
<td><strong>Total</strong></td>
<td>256</td>
<td>241</td>
<td>285</td>
<td>276</td>
<td>223</td>
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<td><strong>HIPC Operations</strong></td>
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<td></td>
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<tr>
<td>Total</td>
<td>1</td>
<td>7</td>
<td>1</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td><strong>Non-lending Instruments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic/Sector Reports</td>
<td>326</td>
<td>264</td>
<td>291</td>
<td>387</td>
<td>309</td>
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<td>PRSPs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Country Assistance Strategies</td>
<td>33</td>
<td>34</td>
<td>40</td>
<td>32</td>
<td>35</td>
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<tr>
<td>Financial Sector Assessments</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>12</td>
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<tr>
<td>Sector Strategy Papers</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>6</td>
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<tr>
<td><strong>Total</strong></td>
<td>359</td>
<td>298</td>
<td>331</td>
<td>420</td>
<td>372</td>
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</tbody>
</table>

3.36 A New Product Development unit allocated $19 million of Compact funds to a variety of initiatives. Some of these were entirely product-specific—others focused on creating innovation processes.

- The Global Carbon Initiative was the largest product-specific initiative supported by the Compact and a major success. $3.5 million were invested to establish the Prototype Carbon Fund in July 1999. The Fund, which promotes a market for greenhouse gas offsets, has quickly grown to a volume of $145 million and is now active in 19 countries and with many corporations. Sponsors believe that this project would have remained dormant without Compact funding.

- Several specific and new lending products also were supported by the unit. Learning and Innovation Loans (LILs) and Adaptable Program Loans (APLs) were introduced in September 1997 and have been mainstreamed rapidly with 27 APLs and 29 LILs approved in FY00. Compact funds also were used to pilot Public Expenditure Reform Loans in two countries.

- Product innovation processes supported by Compact funds included the Innovation and Development Marketplaces, which created channels for soliciting and funding of innovative ideas. Examples of selected ideas range from creating better instruments for capturing and applying indigenous knowledge in development to producing low-cost cooking fuel from sugar cane waste.

tap funds to pursue these ideas. Sponsors and mentors were assigned for each idea, but their involvement varied considerably and there was little institutional follow up to these investments, including with respect to how they might impact on the Bank’s lending and other work. The Development Marketplace 2000 accepted proposals from outside the Bank as well. Of the 330 teams invited, 44 were funded (including 10 internal teams). The event fostered collaboration and risk-taking. But application of the Bank’s customary legal, procurement, financial and other procedures on these kinds of projects was difficult. The Innovation and Development Marketplaces are only two of a large number of examples of efforts to promote innovation in the Bank. But their experience demonstrates that fostering innovation at the micro level remains a challenge for the Bank and will require the development of appropriate processes, systems and incentives to make product innovation a way of life.

**Partnerships**

3.38 Under the Partnership Initiative, the Bank expanded and strengthened its in-country partnerships with governments, civil society, the private sector, and other development players. Concrete actions included supporting national and sub-national conferences on development strategy, revamping the consultative group process, developing partnership frameworks, and opening a dialogue with partners on joint actions. The concept of partnership has been mainstreamed in all levels of the Bank’s work. All CASs now involve a significant consultative process compared with 25% in FY96. In-country partnerships have also led to an increase in the number of Bank operations involving local NGOs from about 50% in FY97 to over 70% in FY00.

3.39 At the country level, the CDF and the preparation of PRSPs are also resulting in greater partnership. The CDF framework is anchored in four key inter-related principles, pursued at country level: a long-term vision and strategy; enhanced country ownership of development goals, policies and actions; more strategic partnerships among stakeholders; and more transparent accountability for development results. The CDF approach is now being formally piloted in twelve countries, and is being used as a framework in more, and the implementation of PRSPs is being based on CDF principles.

3.40 The Bank has also broadened its partnerships globally, leveraging its resources and technical advice. Ongoing partnerships with specific institutions or actors, including donor agencies, have been strengthened and made more effective both in moving public opinion on key development issues and mobilizing resources. Global and thematic programs and partnerships have also advanced the Bank’s ability to build coalitions to take on cross-cutting development issues and manage crises. To better manage these partnerships and ensure that sufficient oversight and selectivity are being exercised, Management has put in place an enhanced framework for review of partnerships and is building a stronger central system of information and reporting.

3.41 The development benefits of enhanced country and global partnerships are expected to be substantial. But the Bank needs to exercise greater selectivity and ensure that the benefits of specific partnerships are carefully assessed in relation to costs and
result in business-like alliances for real results. As emphasized in the March 2000 paper on “Partnership Selectivity and Oversight,” and again in the January 2001 paper “A Framework for Managing Global Programs and Partnerships,” it is important for both new and ongoing partnerships that the Bank demonstrates a clear link to core institutional objectives and country operational work. The case for Bank participation should be strong (whether in an initiating, convening, leading, or participatory role). There needs to be an increased desire to cede responsibilities to other players if they have greater comparative advantage. And there should be an assessment of potential risks at the outset.

3.42 The papers on partnerships have also emphasized the importance of a thorough analysis of resource implications. The additional budgetary costs of in-country and global partnerships were not fully comprehended when the Compact was launched. For example, the average cost of preparing CASs has increased, from approximately $77,000 in FY96 to approximately $151,000 in FY99, a reflection in part of greater complexity and quality, but also that CASs now involve a significant consultative process. The additional budgetary costs of in-country partnerships are also reflected in the costs of other specific products as well as in other client services. On global partnerships, the Compact allocated $3.6 million to promote private sector partnerships, and this was used to help establish the Business Partnership Center, which has now become the Business Partnership and Outreach Group, serving the entire Bank Group. But no explicit costing of or provision for other global and thematic partnerships was made. Budgetary expenditures on external partnerships and outreach were not tracked separately until FY98 when they totaled $9 million; in FY00 they totaled $16 million.

Summary

3.43 In sum: the Compact has led to a major reorientation of the Bank’s agenda and this is expected to have a substantial developmental impact. But the specific benefits and costs of a lot of the new work, its implications for the Bank’s ongoing work and how the Bank should be resourced and managed to deliver a much broader range of services have not been adequately addressed. In this context, it should be noted that operational expenditures associated with the changing development paradigm (as reflected in the cost of other client services) nearly doubled between FY96 and FY00, a growth rate not anticipated under the Compact or the CER (Table 3.4).

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Table 3.4: Expenditure on Other Client Services in Bank Operations
($ million of direct costs)

<table>
<thead>
<tr>
<th></th>
<th>FY93</th>
<th>FY94</th>
<th>FY95</th>
<th>FY96</th>
<th>FY97</th>
<th>FY98</th>
<th>FY99</th>
<th>FY00</th>
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</thead>
<tbody>
<tr>
<td>Technical Assistance &amp; Aid Coordination</td>
<td>22.2</td>
<td>26.7</td>
<td>26.1</td>
<td>27.2</td>
<td>29.5</td>
<td>36.4</td>
<td>42.3</td>
<td>38.0</td>
</tr>
<tr>
<td>Country Program Support</td>
<td>17.0</td>
<td>21.0</td>
<td>20.7</td>
<td>23.3</td>
<td>29.8</td>
<td>35.8</td>
<td>38.3</td>
<td>36.0</td>
</tr>
<tr>
<td>Client Training</td>
<td>11.1</td>
<td>13.0</td>
<td>16.6</td>
<td>15.7</td>
<td>25.4</td>
<td>28.1</td>
<td>28.0</td>
<td>22.1</td>
</tr>
<tr>
<td>Knowledge Management</td>
<td>0.3</td>
<td>0.8</td>
<td>22.0</td>
<td>36.0</td>
<td>41.3</td>
<td>2.4</td>
<td>5.5</td>
<td>8.3</td>
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<td>Sector Strategy</td>
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<td>9.3</td>
<td>14.8</td>
<td>16.0</td>
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<td>Quality Assurance</td>
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<td>1.1</td>
<td>5.6</td>
<td>7.4</td>
<td>12.7</td>
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</tr>
<tr>
<td>External Partnership &amp; Outreach</td>
<td>26.6</td>
<td>23.6</td>
<td>20.6</td>
<td>18.5</td>
<td>18.0</td>
<td>16.1</td>
<td>18.1</td>
<td>17.4</td>
</tr>
<tr>
<td>Business Development</td>
<td>21.7</td>
<td>35.8</td>
<td>31.1</td>
<td>32.2</td>
<td>32.5</td>
<td>14.6</td>
<td>16.1</td>
<td>15.4</td>
</tr>
<tr>
<td>Council &amp; Sector Board Activities</td>
<td>2.5</td>
<td>2.2</td>
<td>3.9</td>
<td></td>
<td></td>
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<td>Research</td>
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<td></td>
<td></td>
<td>5.2</td>
<td>4.0</td>
<td>16.7</td>
</tr>
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<td>Others</td>
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<td>3.9</td>
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<td>98.5</td>
<td>120.1</td>
<td>115.1</td>
<td>117.2</td>
<td>137.1</td>
<td>178.0</td>
<td>212.7</td>
<td>227.7</td>
</tr>
</tbody>
</table>

Source: Annex 1, pgs. 11 and 12

D. Retooling the Bank’s Knowledge Base

3.44 The knowledge sharing program has expanded rapidly around the Bank during the Compact period, and moved from experimental status to a relatively mainstream activity. Significant advances have been made in knowledge infrastructure, the establishment of communities of practice, a conceptual framework for understanding the role of knowledge in development, the Bank’s position in a variety of global knowledge networks, and the Bank’s capacity to deliver improved training to clients. The Compact called for the Bank’s knowledge management program to be “benchmarked against other world class knowledge management systems,” and in 2000, the Bank was found by the American Productivity Quality Center to be one of five global best-practice partners. Over the last year the Bank has received other awards and favorable press coverage for its knowledge management efforts.

Knowledge Management

3.45 Much of the investment in knowledge management has been in databases, helpdesks, data repositories, and the internal and external websites. Some indicators of progress include:

- Helpdesks increased in number from 2 to 14 over the Compact period, and 42% of respondents in the 1999 staff survey said that the helpdesks had improved their access to knowledge required for their work. This is an almost 20% improvement over the 1997 staff survey results.

- From October 1998 to March 2000 the number of page views of the Bank’s external website grew from 1.5 million to 5.5 million per month. In November 2000, the Bank was found by the American Productivity Quality Center to be one of five global best-practice partners. Over the last year the Bank has received other awards and favorable press coverage for its knowledge management efforts.

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26 Annex 3 provides a more detailed assessment of the program to retool the Bank’s knowledge base.

27 Source: Strategic Compact, pg.13.
2000 there were 842,000 visits to the website by 332,000 unique visitors. Over a year this would be the equivalent of 1.3 million 200 page books of information. In addition, 61,000 external users have signed up for 81 different electronic newsletters via the Bank’s website.

- The number of objects categorized as development knowledge (as opposed to information about staff services etc) and catalogued in the Bank’s intranet grew from 1,789 in 1997 to 11,256 in 2000. Proportionately speaking, the number of knowledge objects catalogued grew five times as fast as non-knowledge objects over this period.

3.46 The second major emphasis of knowledge management was on communities of practice (thematic groups), which increased in number from 30 to 125 over the Compact period. 41% of staff in the 1999 staff survey said that they were a member of a thematic group, and 39% of staff indicated that their membership of a thematic group had increased their ability to find and share knowledge. 70% of participants in an external review’s focus groups felt that thematic groups “add significant value” to the Bank’s work.28

3.47 While progress is clear, what is less evident is whether all the systems and programs pursued were the correct ones, and whether the impact is sufficient to justify the level of investment. The knowledge management system is fragmented and insufficiently integrated with operational processes. It is also largely supply rather than demand driven, and insufficiently orientated towards the needs of clients. Thematic groups vary greatly in effectiveness, some providing obvious value to operations and clients, but not all.

3.48 The Compact’s efforts to retool the knowledge base should have involved experimentation followed by evaluation, learning and rationalization. While there has been much experimentation, there is less evidence of systematic learning and rationalization. This has been exacerbated by the budgetary system that distributed money to VPUs whether or not it was used effectively, and a governance system that was not able to focus on learning from best-practice in knowledge management within the Bank.

3.49 Knowledge management investment in the Bank as a whole rose significantly during the Compact period—from $0.3 million in FY96 to $43.2 million in FY00.29 To some extent, this increase includes work already being done that was allocated to this new budget code. Most of the expenditures are accounted for by networks and regions—and thematic groups via the network sector boards. As knowledge management is often embedded within other activities, and because units have taken a different approach to budget management, it is difficult to accurately consolidate and measure what this money has been spent on across the Bank (Figure 3.16). But it includes a wide variety of

28 Source: 1999 external review led by Larry Prusak, Director of the IBM Institute of Knowledge Management.
29 This number is Bank-wide and therefore differs from the number in Table 3.4 which only refers to Operations.
knowledge related activities—mostly knowledge sharing, but also knowledge creating and applying via, for example, the thematic groups.

**Figure 3.16. Charges to Knowledge Management Code, FY96-00**

![Bar chart showing charges to Knowledge Management Code, FY96 to FY00](chart)

*Source: Annex 3, pg. 13*

**World Bank Institute**

3.50 The Compact funds allowed the Economic Development Institute (EDI) to build on a change program that was already underway, partly through scaling up programs, and partly via investment in program development, delivery and management. Reform and quality upgrades included a 65% staff rotation and a complete change of management over two years (compared to virtually no change for years before that), the introduction of impact evaluation and quality enhancement programs, new management systems permitting better budget usage, and investments in distance learning and new technologies.

3.51 Client learning (EDI) and parts of staff learning (Learning and Leadership Center) were merged to form the World Bank Institute (WBI) in 1999, realizing substantial synergies and broader learning perspectives. Today, the WBI manages about 15% of the staff training, while the networks and Human Resources deliver the remaining 85%.

3.52 The nominal administrative budget for client learning has increased from $30 million in FY96 to $46 million in FY00 (with trust funds remaining steady at about $14 million), while the number of course participants has increased from 7,000 in FY96 to a projected 32,600 in FY01. Combined staff numbers of the EDI and LLC have been reduced by a quarter over the same period. A more systematic approach to quality improvement has been enabled by a significant investment in program evaluation (4% of the client learning budget in FY01 from 0% in FY96).

3.53 The Compact called for increased reach and impact, and the WBI has made significant progress on both by leveraging technology. The most significant investment
made by WBI over the Compact period has been in distance learning and knowledge (now 17% of the FY01 client learning budget) which has resulted in an increase in the number of training days delivered via this medium from 6,000 in FY99 to 43,000 in FY00. WBI is now attracting significant bilateral donor support (Canada, UK, Japan, Australia, Italy and others) to expand the Global Development Learning Network (GDLN).

3.54 A tension in the past has been in coordinating WBI’s programs with those of regions and networks and some progress has been made in this respect—about 8% of the client learning budget is now directly dedicated to regional and country coordination, which leverages other Bank resources. Progress has also been made on sharpening the thematic focus of the WBI’s programs. The major challenge, that the WBI is taking on, is to make its programs into “World Bank” programs, with the full involvement of regions and networks. WBI also needs to continue to strengthen and leverage its partnerships to maximize impact and sustainability.

Knowledge Economy

3.55 The WDR on knowledge helped strengthen the Bank’s efforts in this critical area. Published in October 1998, it presented a new intellectual framework for understanding the role of knowledge in development. This framework is being applied through policy and training work by WBI, initially largely in East Asia, but now expanding into Latin America and Africa. However the overarching “knowledge economy” perspective has yet to be mainstreamed throughout the Bank, or included systematically in the Bank’s main policy documents, such as CASs. The Strategic Forum in January 2000 identified this as a priority area (and it was discussed again in the January 2001 Strategic Forum), but limited progress had been made until very recently, due to a combination of the current budgetary environment and the lack of an institutional locus of responsibility for the cross-cutting issues inherent in this work.

Other Knowledge and Technology Initiatives

3.56 Over the past five years numerous other initiatives to leverage technology and knowledge for development have developed around the Bank. In addition to GDLN, these include infoDev, the African Virtual University (AVU), the World Links for Development Program, the Global Knowledge Partnership, the Global Development Network (GDN), and the Development Forum. While each initiative contributes to the Bank’s “knowledge for all” strategy, the Bank is not yet maximizing the synergies and benefits that might flow from these groups and is only now developing a “spin-off” strategy. The AVU, GDN, and the World links program are now becoming independent of the Bank, and being rooted firmly in partnerships with other institutions to ensure their sustainability. As other initiatives are spun off, the Bank needs to ensure that it applies the lessons learned from such experiences, and maintains access to future learning.

3.57 In addition to these initiatives, the Bank recently established the Global Development Gateway and the Global Information and Communications Technology unit (GICT). The Gateway is an attempt to leverage the full power of the Internet through
establishing global and country gateways on development. The Gateway is also being formally established externally to the Bank in order to ensure its independence, flexibility and sustainability, but remains an important vehicle for the Bank’s evolving knowledge strategy. GICT combines the IFC and World Bank telecommunications and information technology practices to strengthen their combined impact, and also provides the institutional home for infoDev.

Conclusion

3.58 The Compact’s knowledge vision is even more relevant to the Bank today than it was in 1997. Due to client demand the Bank is having to consider how it might offer knowledge and advisory services that are delinked from lending. The information revolution has increased in pace, and the globalized “knowledge economy” and digital divide are increasingly taking center stage as one of the major development challenges of the new millennium. External forces, as well as the Bank’s growing insights about the importance of knowledge in development, are requiring that the Bank continue exploring how to leverage its knowledge capital better.

3.59 The challenge is much bigger than “knowledge management” and concerns a broader cycle of creating, sharing, and applying knowledge. While the Compact focus on knowledge sharing was useful to jumpstart progress in this area, it is important to focus also on the other elements of the cycle: how to learn and create knowledge and how to apply knowledge to products and services—and then capture this experience as new knowledge. The Bank also needs to consider the balance and effectiveness of its investments in the knowledge cycle. In recent years, while investments in sharing knowledge have increased significantly, investments in creating and applying knowledge have not kept pace with Compact expectations (Figure 3.17).

Figure 3.17. Direct Cost Trends in Creating, Sharing, and Applying Knowledge (FY93-00)

Source: Annex 3, pg. 16

These categories are in practice not exclusive, and these numbers are only an initial categorization.
3.60 Over the Compact period the Bank has made significant progress in developing new approaches to leveraging knowledge. It is now time to consolidate the variety of activities that are underway and to root them firmly in client demand and Bank country programs.

E. Revamping Institutional Capabilities

3.61 During the Compact the Bank transformed many parts of its organizational architecture, with some encouraging results but some unintended consequences and disconnects. The organizational structure of the Bank significantly changed toward strong country directors—and a more client-focused and country-based organization supported by global sectoral and thematic networks. However, steps taken towards delayering and empowering of front-line staff have not been as successful and in some cases, have had to be reversed. The Bank also undertook a major transformation of many of its systems and processes. But in a number of cases, implementation challenges were severely underestimated, and necessary linkages were not always foreseen with the result that the full benefits and efficiency gains of the changes have yet to be realized.

3.62 The number of people in the Bank stayed about the same during the Compact but there was a substantial turnover of staff (1/3 of current staff were hired during the Compact period), more staff are now based in country offices and there is a greater representation of the priority technical expertise identified in the Compact. Some skill gaps persist, including managerial and team leadership skills. Periodic redundancy programs have also sapped morale and increased uncertainty. The Bank did identify the culture attributes it would like to foster—they included a client-focus, pragmatism, innovation, listening, teamwork, and trust. Progress has been uneven across these attributes and is not sufficiently embedded to withstand high stress. Sustainable change will require a greater and more focused effort.

Decentralization

3.63 The pace of decentralization of staff, functions, and authority accelerated under the Compact with the support of $47 million of Compact resources. The number of regional staff in country offices has increased by 33% to 2,251 between FY98 and mid FY01 (end December), while those in Washington decreased by 5% to 2,635. The number of international staff in country offices in the regions has increased by 9% to 276 and the number of local staff by 39% to 1,975, of whom about 40% are professional staff, enhancing the capacity of these offices.

3.64 Functions carried out in country offices expanded over the past three years in areas such as project supervision, procurement, financial management, and disbursement.

31 A more detailed assessment of progress on location of work is provided in a separate report of the decentralization working group “Decentralization: A Strategic Tool for Strengthening the Bank.”
Although the majority of such work continues to be managed by international staff, an increasingly larger share is being managed by experienced national staff.

3.65 Authority was significantly delegated during the past three years, changing the dynamics between Washington and country offices. 29 country directors are now located outside Washington, up from only three in FY97. About 70% of the new lending in FY00 was accounted for by field based country directors, who cover over 75% of the Bank’s client population and 80% of the Bank’s loan portfolio.

3.66 In parallel, the enabling environment for decentralization, including human resource policies and communications, has also improved. Satellite links have been established in 84 of 95 country offices by end FY00 compared to 30 of 80 offices in FY97. All the offices are now fully integrated into a world-wide budget management and knowledge management system with real time connectivity. The Bank has adopted a “one staff” philosophy to treat staff equally regardless of location. The goal is to position staff doing comparable jobs at comparable points in the labor markets in which they were recruited and work and to provide all staff with a comparable set of social benefits. However the “one staff” philosophy is still not clear to all staff with some national staff, in particular, understanding it to mean “equal” as opposed to “comparable” salary and benefits. In addition, concerns still remain on re-entry of international staff back into headquarters.

3.67 The response to decentralization from partners, clients and staff has been positive. Surveys of other development agencies, clients and staff found that they consider decentralization to have improved the Bank’s responsiveness and quality of work. Decentralization has also led to hard-to-measure but real enhancements in in-country capacity building, partnerships, and country dialogue. In all of these areas the Bank is benefiting both from having a daily substantive presence rather than relying on a series of visiting missions and from having more national staff of high quality and with better training and mentoring. Within the overall improvement in country performance measures for the Bank, it also appears there have been slightly better results in more decentralized locations, although it is not possible to attribute the improvements solely to decentralization.

3.68 Going forward, the Bank expects to continue to manage location of work on a country basis, using the CAS to define the role of the country office. Further action is needed, however, on managing the career development of national staff, managing the rotation of international staff between Washington and the country offices, and enhancing the cost effectiveness of decentralization. In addition, the Bank still faces challenges in balancing country and global knowledge, especially in the deployment of sector staff to the countries. Staff issues will need to be addressed as part of a broader review of the implementation of human resource reforms. Bankwide monitoring and evaluation of decentralization will also need to be enhanced.
Matrix Management

3.69 Implementation of matrix management was funded in part by Compact allocations of $7 million for “Regional Change Programs” and $16 million for “Building the Networks” (use of these funds was not reported on separately from the overall programs of regions and networks). Initial implementation proceeded on a region-by-region and network-by-network basis and without a transition plan to show how the various initiatives would eventually be brought together. Overall, the initial efforts on matrix management have led to an increased country focus. They have also led to an improved technical capacity and response capability (e.g., in cases of financial crisis, natural disasters and post conflict situations) in both regions and networks as well as to a reduction in the physical fragmentation of technical staff (in one region the number of technical units was reduced from 30 pre 1997 to 4). However, the case by case approach did result in significant differences between regions in the size of country units, the interface between country and sector directors, the configuration of technical units, country team practices, resource management practices, and task team practices. In addition, delayering within sector units, which was initially implemented as a culture change lever to support empowerment (particularly of team leaders), resulted in most cases in a management “stretch” and, in some cases, void with respect to staff coaching and performance management and was de-emphasized.

3.70 In the fall of 1999, in response to the strong concerns expressed by staff and following a comprehensive review of progress and problems, Management reaffirmed that the matrix offered the best structure to deliver high quality services to the Bank’s clients. But the need to further fine-tune the balance between both sides of the matrix—regions and networks—and to clarify some accountabilities was recognized. The main thrusts included:

- giving greater support to country teams to enhance their effectiveness;
- giving greater support to sector managers so that they can fulfill their roles more effectively and—as a means of helping achieve this—giving them dual and equal reporting relationships with Network and Regional Vice Presidents (NVPs and RVPs);
- making explicit—and supporting—the networks’ accountability for technical quality and compliance with institutional safeguard and fiduciary policies, and the implications for sector boards;
- adjusting some of the incentives embodied in the Bank’s budget and human resource systems; and
- formally recognizing the importance of behavior, particularly with respect to teamwork, mutual learning and continuous adaptation.

3.71 A matrix steering committee was formed to provide ongoing guidance. And mechanisms were put in place to continually monitor and build on progress. An October

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32 Annex 4 provides a more detailed assessment of progress on matrix management.
2000 assessment concluded that all networks were making steady progress. Each major network had at least one sector board that was operating quite successfully. Additional good practices were emerging in strategy, staff development, knowledge sharing, and quality support. However, there were also concerns expressed with respect to the difficulties in integrating country and sector strategies and the lack of an effective alignment between corporate priorities and regional programs and implementation capacity. In addition, there was a concern that teamwork behaviors—integral to the matrix—were being adversely affected by tight budgets and that the significant overall costs of managing in a matrix were not being adequately reflected in budget allocations.

3.72 As a result of this stocktaking, a number of institution wide efforts were accelerated, and several others were launched. Most sector boards are now converging around a few essential success factors and good practices, but there are some significant “outliers.” Efforts are now being focused on making sector board good practices the institutional norm. Regional sector management models also seem to be converging around five common principles: reasonable span of mentoring (one management year for 20-25 staff); the development of a sector management team that does not imply multiple approvals; accountability for quality resting squarely with the sector management team; a fully empowered interface with the sector boards; and effective people management processes. Different models of country sector coordination now coexist and agreement on core principles for this function is now being sought. The harmonizing of roles and titles of managers around the sector directors is also being explored.

Information and Other Systems

3.73 Information Systems. The delivery of information systems renewal (ISR) on time was a major achievement. It led to the replacement of 65 fragmented systems, the consolidation of over 100 separate data bases and the creation of a single source of information for accurate reporting, thereby positioning the Bank to take advantage of e-business and electronic information sharing with its partners. Implementation was affected in a very major way by the tight timescales to ensure Y2k compliance, for which the Board approved an additional $10 million (of which $5 million was returned). Actual project costs were $54.2 million compared with a budget of $43 million. Main drivers of the overspend were delays in business decisions, rework and increased customization, and underestimates of costs related to training and change management. Some overspends might have been predicted and mitigated if costs had been revisited after software selection and updated at milestones.

3.74 The speedy development of the SAP enterprise software package was a major achievement, resulting in the Bank now having an enterprise-wide system that is available real time and in a transparent manner globally. However, its operationalization has proved to be very difficult. The implications and prerequisites of moving from a customized to a generalized platform were not well understood. Business sponsors were involved too late in the process and did not fully comprehend the level of detail and

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33 Annex 5 provides a more detailed assessment of information systems renewal.
34 Based on an internal review under the supervision of the Director of Accounting.
decision making that was required. Insufficient attention was given to internal controls and comprehensive reports targeted to major user groups (e.g., country directors and chief administrative officers) and country office interests were under-represented as well. As a result the performance dip that was expected immediately after the launch of SAP was deepened and prolonged. The CER estimated $21m in annual savings in FY01 from systems renewal; this included $10 million in business unit savings and $11 million in ISG savings. In addition, $4 million in savings were also targeted in Resource Management (RM). The expected savings by business units and RM were clawed back from unit budgets but these savings were neither owned at the outset nor were they supported by process improvements and it is therefore very unlikely that they have been realized. In fact, the first 18 months of operation of SAP has almost certainly led to an increase rather than a savings in operational costs. ISG, by contrast has delivered $8 million in ISR savings, which is significant, although below CER projections.

3.75 Based on experience to date and with a better understanding of the capabilities and limitations of the system, efforts are now on-going to better leverage the Bank’s investments in ISR. Work is underway to: streamline business processes; enhance reporting at key levels in the organization; enable comprehensive unit planning; modify behaviors; fully cost products; and enhance overall ease of use. These efforts should lead to additional savings and benefits.

3.76 **Space Efficiency.** The Space Efficiency Project met its objectives delivering $17 million of annual lease cost savings by July 2000, increasing to $19 million a year in September 2001. Under this project, the General Services Department (GSD) delivered 1470 new workspaces in Bank-owned buildings (350 more than planned) and increased conference and meeting rooms by 25%.

3.77 **Other Back-line Activities.** Some of the other back-line CER initiatives have delivered the expected benefits (Table 3.5). The medical benefits PPO arrangements delivered the promised $3 million benefit in FY00. And central unit budgets delivered $17 million in annual savings. Other targeted areas (including RM and Publications) have delivered partial savings to date; and in some areas (Treasury), the original expectations have been overtaken by structural and other changes.

<table>
<thead>
<tr>
<th>Activity</th>
<th>FY00 Target</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource Management</td>
<td>$2m</td>
<td>Minimal</td>
</tr>
<tr>
<td>Systems Renewal</td>
<td>$13m</td>
<td>Partial</td>
</tr>
<tr>
<td>Publications</td>
<td>$8m</td>
<td>Partial</td>
</tr>
<tr>
<td>Real Estate</td>
<td>$21m</td>
<td>Full</td>
</tr>
<tr>
<td>Treasury</td>
<td>$3m</td>
<td>No a/</td>
</tr>
<tr>
<td>Central Unit Budgets</td>
<td>$17m</td>
<td>Full</td>
</tr>
<tr>
<td>Medical Benefits</td>
<td>$3m</td>
<td>Full</td>
</tr>
<tr>
<td>Overheads and Indirect Costs in Operations</td>
<td>$16m</td>
<td>n/a b/</td>
</tr>
</tbody>
</table>

a/ Plans were changed.
b/ Estimates can not be made because there was no mechanism in place to track specific savings.
*Source: Annex 7, pg. 11*
Human Resources

3.78 As part of the Compact, the Bank undertook a thorough review of its human resource policies and in March 1998 agreed on a new framework for managing people in the Bank Group. This framework recognized that the Bank needed: an integrated global staff; a compensation system which links pay and performance, coupled with strengthened performance management; and better professional development for all staff.

- The new employment policy which went into effect in April 1998 included new employment categories and contracts; new recruitment criteria and improvements to the recruitment process; and changes in the severance policy.

- Compensation policy reforms included a simpler grade structure; better market alignment of the salary system; exploration of variable pay systems to reward outstanding individual and team accomplishments; comparable social benefits for all staff; integration of headquarters and national staff pay principles; restructuring of expatriate benefits; and improvements to retiree medical and disability coverage.

- Staff development included a comprehensive program of professional development; revisions to the performance management system; and development of an overall strategy for leadership selection and development.

3.79 Many of these proposals were implemented during 1998 and most of the remainder during 1999. In fact there have only been a few variations from the original framework and timetable: grade collapse was introduced as an alternative to the more radical “broad banding” proposal; the development of professional skills profiles have been replaced by a broader approach to strategic staffing; and performance awards are still in a pilot mode and remain controversial. Compact funds of $36 million have been used to support staff development. The phase out of non-regular staff (NRS) has also led to increased costs. But many of the reforms to compensation policy have led to a reduction in overall costs to the Bank. The initial experience with these new policies suggests that they represent an improvement over past practices. Effective and systematic implementation of this framework, and modifications as appropriate, will be essential to ensuring that the Bank can attract and retain the best people from all over the world.

3.80 Recruitment. During the Compact period, 2,250 staff were hired in Washington and 1,100 national staff recruited in country offices. In Washington professional recruitment (GE and above) was largely in line with Compact objectives. All of the growth sectors, except rural development, witnessed significant recruitment. Over a third of all recruitment was into more junior staff ranks, including 466 into office support functions. The latter represents a backlog in hiring after years of freeze on administrative client support (ACS) hiring. In country offices, the recruitment at professional levels was heavily focused on the junior end of the spectrum, with only 10% at GG or equivalent. There were also continuing high levels of ACS staff hired (60% of recruitment at level

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35 Annex 6 provides a more detailed assessment of human resource reforms and their impact on staff.
GD or below). A review of the recruitment process suggests that decisions to hire (or terminate) were, especially in the early years of the Compact, taken primarily at the unit level and on a case-by-case basis. More recently, however, Sector Boards have begun to take on significant responsibility for staffing, with the best demonstrating strong strategic management.

3.81 Separations. The high rate of staff terminations during the Compact period reflects, in part, normal rates of attrition due to mandatory retirements, non-renewal of time-bound appointments and, for some, the attractiveness of alternative career opportunities outside the Bank. But it was also impacted by three specific Compact elements:

- The phase-out of NRS which compelled units to either absorb their long-term consultants and temporary staff (2635 at the start of the Compact) into regular appointment status or terminate their employment.
- The introduction of the staff retirement plan “Rule of 50” which granted all participants of the “gross” Staff Retirement Plan (SRP) the right to retire from age 50 onwards with an actuarially unreduced pension based, strictly, on years of pensionable service.
- The Compact Severance Program, whose funds underwrote “Bank initiated” terminations during the Compact period.

3.82 When the NRS phase-out came to an end in December 2000, slightly more than 1700 former NRS (65% of the original population) had been converted to regular employment status. All conversions were subject to some form of institutional clearance by networks, sector boards or ad-hoc panels. As a result a major employment equity problem was confronted and solved, but at some cost in terms of staffing flexibility and an overall 3% increase in staffing costs.

3.83 About 430 staff are judged to have separated under the “Rule of 50.” Turnover has been most pronounced at the career plateau grades—GC for ACS staff and GG for professional staff. It has also been high for GH, the middle management level. A significant number of Rule of 50 retirees have returned to work for the Bank as short term consultants which means that institutional memory and technical know-how is not necessarily being lost. But the impact over time of the Rule of 50 on the pool of experienced task managers (who for a variety of reasons cannot easily be replaced by short-term consultants) will need to be carefully monitored.

3.84 736 staff (10% of Washington staff) have separated under Compact severance terms at a cost of $114 million. The process was well managed from an administrative perspective, with staff performance records being vetted to ensure that documented performance cases were not included. The process was conducted largely on a case by case basis with Sector Boards becoming more active in vetting separation cases only over time. By design, and in order to provide sufficient incentives for managers to take the decisions needed for skill renewal, the funds were managed centrally. This meant,
however, that local managers were shielded from having to make tougher business trade-offs around cases.

3.85 *Staffing Levels.* The overall level of staffing in the Bank is a reflection of the predominantly bottom-up, and case by case approach to both recruitment and separations. In the first year of the Compact the total number of staff in both Washington and country offices increased significantly, largely reflecting the increase in the availability of the budget (Table 3.6). Subsequently the number of country office appointed staff continued to grow (until this fiscal year) while the number of Washington appointed staff declined, albeit slowly.

**Table 3.6: Staffing Levels, FY97–FY01**

<table>
<thead>
<tr>
<th></th>
<th>6/30/97 Actual</th>
<th>6/30/98 Actual</th>
<th>6/30/99 Actual</th>
<th>6/30/00 Actual</th>
<th>12/31/00 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington appointed</td>
<td>7,165</td>
<td>7,509</td>
<td>7,145</td>
<td>6,906</td>
<td>6,614</td>
</tr>
<tr>
<td>Washington based</td>
<td>6,809</td>
<td>7,101</td>
<td>6,711</td>
<td>6,490</td>
<td>6,205</td>
</tr>
<tr>
<td>Outside Washington</td>
<td>356</td>
<td>408</td>
<td>434</td>
<td>416</td>
<td>409</td>
</tr>
<tr>
<td>Country office appointed</td>
<td>1,529</td>
<td>1,753</td>
<td>1,999</td>
<td>2,112</td>
<td>2,060</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8,694</td>
<td>9,262</td>
<td>9,144</td>
<td>9,018</td>
<td>8,674</td>
</tr>
</tbody>
</table>

*Source: Annex 6, pg. 15 and CRM*

3.86 *Staffing Flexibility.* Staff costs as a proportion both of total administrative expenses and the total administrative budget fell in FY98, due in the main to a lag between the increase in the administrative budget and the increase in staff (Table 3.7). In subsequent years, staff costs as proportion of administrative expenses remained about the same but increased as a proportion of the total administrative budget, the difference reflecting the impact of carryovers. Further reductions in these ratios are needed for units to have sufficient flexibility to respond quickly to changing needs, without the need for costly redundancy programs.

**Table 3.7: Staffing Costs, FY94-FY00**

<table>
<thead>
<tr>
<th>Ratio of staff plus LTC costs to:</th>
<th>FY97</th>
<th>FY98</th>
<th>FY99</th>
<th>FY00</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Administrative Expenses</td>
<td>60%</td>
<td>58%</td>
<td>59%</td>
<td>58%</td>
</tr>
<tr>
<td>2. Total Administrative Budget</td>
<td>60%</td>
<td>55%</td>
<td>57%</td>
<td>59%</td>
</tr>
</tbody>
</table>

*Source: Annex 6, pg. 17*

3.87 *Skills Mix.* Overall, the technical skill mix of HQ appointed staff has begun to change towards the sectors highlighted in the Compact as new areas of focus (Table 3.8), with the notable exception of rural development which has actually declined. It is also clear that these skill areas are still a relatively small proportion of the overall skills of the Bank and that non-technical (including office support) skills account for a major, though declining, share of the total.
Table 3.8: Change in Skills Mix  
(as percentage of HQ-appointed staff)

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment and Social Development</td>
<td>1.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Finance</td>
<td>4.1</td>
<td>5.3</td>
</tr>
<tr>
<td>Human Development</td>
<td>2.2</td>
<td>2.7</td>
</tr>
<tr>
<td>Public/Private Sector Development</td>
<td>1.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Rural</td>
<td>1.2</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Total for targeted sectors</strong></td>
<td><strong>11.3</strong></td>
<td><strong>13.8</strong></td>
</tr>
<tr>
<td>Other technical support(^a)</td>
<td>56.0</td>
<td>57.0</td>
</tr>
<tr>
<td>Other (including office support)</td>
<td>32.7</td>
<td>29.2</td>
</tr>
</tbody>
</table>

\(^a\) The largest growth in other technical support was in IT and external affairs

Source: Annex 6, pg. 15

3.88 **Diversity.** As part of human resources reform, the Bank committed to improving diversity quantitatively and qualitatively—and to increasing management accountability for results through diversity agreements. On the quantitative side, the Part I/Part II breakdown of international staff has changed little over the Compact period (38% are Part II nationals compared with a target of 40%). But there has been steady progress in improving representation of women at grade levels GF-GG and GH+; and there has been an increase in staff of Sub-Saharan African origin at levels GF-GG and most noticeably at GH+. On the qualitative side, monitoring, coaching, and training programs have been developed and there is increased attention to culture change through awareness-raising programs. Differences are being recognized but changing the culture to value differences remains key. To strengthen management accountability, diversity agreements were introduced in FY99, with a second round of agreements covering FY01. Experience to date suggests that these are helping to increase management awareness of the issue and its ownership of commitments. More needs to be done to ensure that they are used as a mechanism to hold managers accountable for progress.

3.89 **Performance Management.** The start of the Compact coincided with the roll-out of new tools for performance management, including overall performance evaluations (OPE), results agreements, and development action plans. These tools, which have been modified based on experience and recast in electronic versions were designed to increase the focus on results (including impact on clients) and on behaviors, as opposed to just activities and outputs; allow staff and managers to plan work programs, align work with the unit’s business needs, and clarify individual performance expectations; and help staff develop needed abilities. The 360 degree feedback program was also introduced, as an input into managers’ OPEs and for staff development.

3.90 Evaluation studies suggest that these new tools are beginning to take hold. For example, one study of completed OPEs\(^{\text{36}}\) showed that 54% of staff were using a result focused approach, meaning that they were identifying their work in terms of its impacts, outcomes, and how clients were served. However the other 46% of staff were continuing

to record their activities and outputs without explicit regard to impact or service to clients. Improvements are also needed in the process for preparing results agreements. VPs need to be systematically sharing their results agreements with their management teams and staff so that everyone is working towards the same goals. Human Resources staff also need to explore further streamlining of these tools, while continuing to encourage and support managers and staff in using the available tools to engage in meaningful discussions of performance, expectations and development needs.

3.91 Professional Development. The Bank has focused more attention on developing the professional and behavioral skills of its staff, though much more needs to be done to transform the Bank into a world-class learning organization. One key achievement during the Compact period was the introduction of a broad professional and technical learning program, covering all key disciplines. Another was the development of new behavioral learning programs. Evaluation of these programs shows that the overall quality is good—and improving. In addition, cost efficiency of professional development is improving.

3.92 However, learning is still not sufficiently driven by business needs and staff skill gaps. The focus and coherence of the learning program needs to be sharper. And learning pedagogy needs to be further realigned with adult learning techniques. Further attention also needs to be given to the resources and focus needed to become a world-class learning organization. Expenditures on staff learning doubled over the Compact period, but budget pressures in this fiscal year may result in the Bank not meeting the goal that total investment in staff learning should average about 5% of the annual administrative budget and staff members on average should invest about two staff weeks each year for learning activities (in addition to one staff week for knowledge sharing activities). The Knowledge and Learning Council (KLC) is now endeavoring to address these issues.

3.93 Leadership Selection and Development. During the Compact period major changes were made to the selection and development processes for managers. A new Bank-wide management selection and rotation system was developed that represents a major shift from a “laissez faire” approach to an institutional system with all management selection now subject to short listing and selection processes. Emerging managerial talent is also increasingly targeted for developmental rotation. Since its inception, 350 managerial appointments have been made, 214 by internal candidates with prior Bank managerial experience, 80 by internal candidates without prior managerial experience and 56 by external management recruits.

3.94 As a result, the size of the management cadre has increased by 16% during the Compact period. This can be explained in part by the higher managerial costs of the “matrix,” although many sector managers continue to be over-stretched, as well as by a more liberal use of the title of “manager.” In addition, over the Compact period, the number of senior managers (managing directors and vice presidents) increased from twenty seven to thirty three. These additional management costs were not anticipated when the Compact was launched.
3.95 Under the Compact, the Bank initiated the Executive Development Program (EDP), a major initiative to infuse leadership with fresh knowledge, attitudes, and perspectives on organizational effectiveness. Over 60% of current Bank managers have attended the EDP and the program has been complemented by “Challenge of Leadership” and other events.

3.96 However, the effectiveness of these changes in enhancing the overall quality of management in the Bank remains uncertain. In the most recent attitude survey, many staff indicated that they were not convinced of the transparency and value of the new managerial selection process. Some of the returns to the Bank from investment in EDP could be quickly lost (20–40% of participants are close to retirement or at risk of terminating voluntarily). Surveys also suggest that much of the lessons have yet to be mainstreamed in the Bank or transferred broadly to other staff.

3.97 Key areas for future work in human resources include ensuring: sufficient flexibility in employment types and compensation policies to meet changing business needs; closer alignment of strategic staffing plans with a multi-year budget framework; further alignment of incentives to support a global workforce; and continued emphasis on fostering managerial excellence, especially the development of basic managerial skills.

**Budget and Financial Management of Costs**

3.98 The Compact established very specific administrative budget envelopes, and the Bank has met those targets each year from FY98 to FY01 (Table 3.9). Actual expenditures were below budget envelopes in each year of the Compact. The difference between actuals and budgets was $13 million in FY97, $83 million in FY98, $89 million in FY99, and $54 million in FY00. Some of the difference each year was carried over into the following year and the remainder was returned to net income.

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37 Annex 7 provides a more detailed assessment of progress on the budget and financial management of costs.
Table 3.9: Administrative Budget Trends, FY97-FY01
($ million)

<table>
<thead>
<tr>
<th></th>
<th>FY97</th>
<th>FY98</th>
<th>FY99</th>
<th>FY00</th>
<th>FY01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compact Envelope (FY97 $)</td>
<td>1,177.1</td>
<td>1,277.1</td>
<td>1,277.1</td>
<td>1,227.1</td>
<td>1,177.1</td>
</tr>
<tr>
<td>Approved adjustments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SRP and RSBP Savings</td>
<td>-110.0</td>
<td>-141.1</td>
<td>-141.9</td>
<td>-146.0</td>
<td></td>
</tr>
<tr>
<td>Financial Sector Reinforcement</td>
<td>12.5</td>
<td>25.0</td>
<td>12.5</td>
<td>6.4</td>
<td>6.5</td>
</tr>
<tr>
<td>Y2K &amp; Anti-Corruption</td>
<td></td>
<td></td>
<td>16.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Change a/</td>
<td>5.3</td>
<td>5.6</td>
<td>6.4</td>
<td>6.5</td>
<td>7.0</td>
</tr>
<tr>
<td>Adjusted Compact Envelope</td>
<td>1,182.4</td>
<td>1,237.1</td>
<td>1,262.5</td>
<td>1,241.0</td>
<td>1,211.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>FY00</th>
<th>FY01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed Net Admin. Budget</td>
<td>1,182.4</td>
<td>1,174.3</td>
</tr>
<tr>
<td>Boards, SEC and OED</td>
<td>72.0</td>
<td>67.7</td>
</tr>
<tr>
<td>Development Grant Facility</td>
<td>120.3</td>
<td>120.0</td>
</tr>
<tr>
<td>Total Admin. Budget</td>
<td>1,374.7</td>
<td>1,362.0</td>
</tr>
<tr>
<td>Carryover</td>
<td>40.9</td>
<td>75.5</td>
</tr>
<tr>
<td>Adjusted Total Admin. Budget</td>
<td>1,374.7</td>
<td>1,362.0</td>
</tr>
<tr>
<td>Underrun</td>
<td>12.7</td>
<td>83.3</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Returned to Net Income</td>
<td>12.7</td>
<td>42.4</td>
</tr>
<tr>
<td>Carryover</td>
<td>40.9</td>
<td>75.5</td>
</tr>
</tbody>
</table>

Source: Annex 7, pg. 13

3.99 Gross expenditures on Compact initiatives are estimated to have totaled $724 million for the whole Compact period (Table 3.10), somewhat larger than the budget target of $613 million in current prices (or $576 million in FY97 prices) due to an expansion in some of the initiatives, particularly knowledge management. However, definitions and data capture mechanisms have evolved during the period, so the costs are indicative and not strictly comparable. Costs for FY00 are difficult to track precisely due to mainstreaming and time recording system simplification. The frontline and backline savings from the CER are also difficult to estimate and in FY00 were certainly much below the planned $124 million (in FY97$) and below also the $79 million (in FY97$) anticipated in the Compact document itself.
Table 3.10: Strategic Compact Initiative Gross Funding, FY98-FY00\textsuperscript{38}  
(in $millions)

<table>
<thead>
<tr>
<th>Expenditures on Initiatives a/</th>
<th>FY98</th>
<th>FY99</th>
<th>FY00</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Refueling current business activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work Program Pressures</td>
<td>69</td>
<td>75</td>
<td>97</td>
<td>241</td>
</tr>
<tr>
<td>Strengthening Core Operational Services</td>
<td>42</td>
<td>42</td>
<td>39</td>
<td>123</td>
</tr>
<tr>
<td>Quality Assurance</td>
<td>18</td>
<td>20</td>
<td>41</td>
<td>78</td>
</tr>
<tr>
<td>HIPC Initiative</td>
<td>8</td>
<td>11</td>
<td>16</td>
<td>35</td>
</tr>
<tr>
<td>2. Refocusing the development agenda</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Social Dimensions of Development</td>
<td>12</td>
<td>15</td>
<td>19</td>
<td>47</td>
</tr>
<tr>
<td>Rural Development</td>
<td>16</td>
<td>12</td>
<td>20</td>
<td>48</td>
</tr>
<tr>
<td>Africa Capacity Building</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Anti-Corruption Activities</td>
<td>5</td>
<td>6</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Financial Sector Development</td>
<td>4</td>
<td>6</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>Private Sector Partnerships</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>New Products Development</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>19</td>
</tr>
<tr>
<td>3. Retooling the Bank’s knowledge base</td>
<td>42</td>
<td>65</td>
<td>64</td>
<td>172</td>
</tr>
<tr>
<td>Knowledge Management</td>
<td>36</td>
<td>57</td>
<td>52</td>
<td>144</td>
</tr>
<tr>
<td>World Bank Institute</td>
<td>7</td>
<td>8</td>
<td>13</td>
<td>27</td>
</tr>
<tr>
<td>4. Revamping institutional capabilities</td>
<td>44</td>
<td>68</td>
<td>32</td>
<td>144</td>
</tr>
<tr>
<td>Staff Development</td>
<td>12</td>
<td>15</td>
<td>9</td>
<td>36</td>
</tr>
<tr>
<td>Location of Work</td>
<td>12</td>
<td>24</td>
<td>11</td>
<td>47</td>
</tr>
<tr>
<td>Information Systems Renewal b/</td>
<td>21</td>
<td>29</td>
<td>11</td>
<td>61</td>
</tr>
<tr>
<td>Total</td>
<td>204</td>
<td>260</td>
<td>261</td>
<td>724</td>
</tr>
</tbody>
</table>

Financed from:

<table>
<thead>
<tr>
<th></th>
<th>FY98</th>
<th>FY99</th>
<th>FY00</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redeployments &amp; Savings</td>
<td>107</td>
<td>164</td>
<td>207</td>
<td>478</td>
</tr>
<tr>
<td>Additional Compact funds</td>
<td>97</td>
<td>96</td>
<td>54</td>
<td>247</td>
</tr>
<tr>
<td>Total</td>
<td>204</td>
<td>260</td>
<td>261</td>
<td>724</td>
</tr>
</tbody>
</table>

\textsuperscript{a/ Numbers might not precisely add up because of rounding.}

\textsuperscript{b/ Differs from number in para.3.73 due to an overstatement of costs in FY98.}

\textsuperscript{Source: Annex 7, pg. 14}

3.100 \textit{Management control and information systems} have made it difficult to track and influence specific Compact expenditures and CER savings. In FY98, the Compact money was clearly incremental and allocation was easy to track. But by FY99, most initiatives were funded from both ongoing budget and incremental Compact resources and it proved increasingly difficult to track the funding sources and uses.

3.101 Sponsors developed their own control mechanisms for Compact funds. In the early stages, the most effective models seemed to be allocation to specific projects through a strong Sector Board. But even this model experienced problems tracking delivery and ensuring incremental use. In the latter years of the Compact many sponsors decided to move away from earmarked budget allocations and increase their impact by trying to influence the general use of funds and mainstream activities, as the Compact intended. They had varying success.

\textsuperscript{38} Data in this table reflects the full costs (i.e. direct and indirect costs) of Compact initiatives, and therefore differ from data in other tables which refer only to direct costs.
3.102 Backline CER savings were tracked through up-front removal from unit budgets, which in a number of instances happened before process improvements had been made. This led to increased work pressures and/or requests for additional funding. Frontline CER savings are difficult to estimate due to changes in product mix and volume as well as the cost impact of other process changes, such as increased attention to safeguards. Some sponsors have also concluded that some of the targeted savings/efficiency gains were simply not realistic, because there was no effective institutional mechanism to track, manage, and deliver these savings.

3.103 Planning and Budgeting Process. In addition, Compact implementation was only partially supported by the business planning and budgeting process. The Strategic Forum and the Strategic Directions Paper guided the allocation of budgets at the VPU level, but the process was still largely incremental with the prior year as a base. The incremental approach to budget distribution, when combined with lower than planned savings and larger than planned redeployments, also meant that regional funds may not have been adequate to fully fund all country assistance strategies.

3.104 During the Compact the budgeting process was strengthened by the adoption of carry-over procedures, but there is still no mechanism (system or behavioral) that drives and captures savings so they become visible and can be reallocated to other activities or returned to net income. In addition, the move away from the Bank’s 3-year rolling budget resulted in insufficient management attention to the post-Compact period and contributed to FY01 budget problems. Recently (under the Budget Reform initiative), important strides have been made in strengthening the alignment of budgets with strategy, through fully costing country strategies; a new process to ensure that all sector strategies, policy papers, and global initiatives are considered within a resource framework; and a more strategic approach to budgeting for support services. A return to a 3-year rolling budget horizon is being proposed for FY02.

3.105 Work Program Agreements (WPA). For country budgets, the WPA system introduced in FY98 reflected a strong country demand focus and prevented ‘supply-driven’ work. It started with a simple proposition that staff should be deployed based on demand for their skills but soon became a cumbersome, expensive and disruptive mechanism within the Bank. The initial system had high administrative costs with too many ‘contracts’ (over 1,500 WPAs) that were revised too often during the year. The system created stress, job insecurity, and poor morale as staff competed with each other for work. It also resulted in ‘protectionism’ with budgetary disincentives to using people from other units.

3.106 In response to these problems, the system was reformed in FY01. Under the reformed system, country directors in consultation with country teams continue to decide sectoral budget allocations and the content of work programs. But there is now one WPA per country per sector, not one per cluster of tasks. Total WPA revenues of each sector unit constitute a ‘sector budget,’ which will normally stay fixed during the fiscal year (enabling better budget management). Further reforms and simplification will be
introduced for FY02. The reformed system will also need to be carefully monitored and evaluated for efficiency and consistency with Bank values and other business processes.

**Transformation and Culture**

3.107 The transformation of the institution began with considerable energy and enthusiasm, but it has proven difficult to sustain momentum. The President mobilized the support of the Board and external stakeholders for the Strategic Compact, and gave implementation a strong initial push. Staff commitment and trust in management, necessary for transformation to succeed, was initially secured in some regions and other VPUs where staff were engaged in the renewal process and management modeled the new behaviors.

3.108 Over time, however, the Bank-wide transformation program has been adversely affected by the many and often new competing demands and priorities and has not always been able to build on specific gains to give encouragement to the organization and boost change. Staff have taken change in their stride, despite the fact that they have not been given a clear picture of how the changes they are experiencing integrate with each other and link with the larger change vision. They see change as episodic rather than continuing and purposeful, which has exacerbated the change fatigue and cynicism expressed throughout the period.

3.109 Based on feedback from focus groups in Washington and interviews with key change players, it appears that Bank *culture* has shifted towards those dimensions highlighted as important in the renewal process. But the change, uneven between different cultural dimensions, is not sufficiently embedded to withstand high stress. The greatest shift has been from being inward-looking to being client-focused. A more modest shift has been achieved in going from a culture of perfectionism to a culture of pragmatism, from risk-aversion to innovation, from arrogance to listening, and from individualism to teamwork. Over the past year it also appears that redundancies and continuing concerns about the “internal market” have increased fear and reduced trust. In general and wherever comparable, these results show a deterioration from the 1999 Attitude Survey results. Culture change is intrinsically hard and the Bank’s culture is deep and strong, so a greater and more focused effort will be necessary to produce the needed sustainable change. It should also be noted that the focus groups did not include staff from country offices; attitude surveys have consistently shown more positive results for staff in country offices compared with staff in Washington.

**Performance Measurement and Management**

3.110 There has been a significant move towards performance-based management (PBM), primarily within VPUs and now increasingly at the corporate level. A range of performance measurement systems is now being actively used, including regional

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39 Annex 8 provides a more detailed assessment of experience with transformation.

40 Annex 9 provides a more detailed assessment of performance measurement.
deliverables scorecards, the new “Dashboard”, and tracking systems for various initiatives. Budgets are linked to annual VPU compacts. Monitoring now involves rigorous quarterly business reviews based on detailed plans, projections and actual results set out in the Dashboard. The output and quality control and evaluation by Operational Policy and Strategy (OPS), QAG, and OED are more systematic. And VPU-internal memoranda of understanding (MOUs) are frequently monitored. But PBM is lagging for many new network deliverables and for financial, administrative and corporate (FAC) units. The link to development results is still weak. And formal personnel evaluation/incentives and budget allocation criteria could be tied more closely to performance.

3.111 The Compact had foreseen a measurement system of the Bank’s core performance dimensions, including its development impact. At the corporate level, there is now a corporate scorecard which is balanced and impact-focused—but it lacks data (particularly on the impact of the Bank’s country/sector assistance) and is not being meaningfully used. The preoccupation with technical perfection at the expense of pragmatism has hindered progress in measuring on-the-ground impact and operationalizing a live scorecard.

Corporate Guidance

3.112 In conclusion it is clear that much progress was made over the Compact period in revamping the Bank’s institutional capabilities. But it also seems clear that the magnitude of the changes undertaken called for a higher level of corporate guidance, monitoring, and integration to achieve maximum performance by the institution.

3.113 Governance. During Compact implementation, the Bank faced unexpected challenges and opportunities which were not anticipated in the original Compact design. These new demands and progress on overall Compact implementation were reported to the Board, including through six progress reports. But there was not an effective strategic dialogue and resetting of expectations between the Board and Management.

3.114 Change Leadership. The Compact aspired towards a massive shift in the nature and functioning of the institution. But the Bank, given its analytical strengths and preferences, may have overemphasized structure and systems as change levers, and underestimated the need for attending to softer, people and motivational issues. Too many staff continue to view themselves as recipients rather than agents of change.

3.115 Integration, Sequencing and Timing. The change initiatives were generally well thought out, but inadequate attention has been given to their mutual reinforcement; and in two cases (delayering and the WPA system), the initial initiatives had to be changed because they were inconsistent with other reforms. In addition, the transformation was attempted in an unduly short period of time, and this may have led to an overload of change without enough attention to creating and maintaining the enabling conditions.

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41 The Dashboard is a set of Web-based reports that integrates data on deliverables, expenditures, and staffing. It is discussed in more detail in Annex 9.
CHAPTER 4. CONCLUSIONS AND LESSONS GOING FORWARD

A. Conclusions

4.1 In conclusion, the strategic agenda and the four key change programs outlined in the Compact were fundamentally sound. The four change programs have helped the Bank to significantly enhance its overall effectiveness. Less progress has been made on improving the Bank’s efficiency. Also, some of the changes in the way the Bank does business have produced increased unit costs. Budgetary and other stresses are now threatening the sustainability of the gains made under the Compact.

Effectiveness

4.2 On the Bank’s overall effectiveness, indicators of product quality for lending, ESW and CASs have improved significantly, as has client responsiveness. The agenda of the Bank is now better focused on the critical sectors and themes that will reduce poverty—with the significant exception of rural development. The Bank has significantly diversified its mix of products and services, strengthened partnerships at both country and global levels and taken important steps towards becoming a more effective “Knowledge Bank.” The Bank has also strengthened some of its institutional capabilities, particularly through greater decentralization and matrix management—although much remains to be done to make it a highly aligned, efficient, and performance-based institution.

4.3 The improvements in the internal measures of Bank performance (many of which are reflected in Tier III of the Corporate Scorecard, Table 4.1) are expected to translate into an overall improvement in the Bank’s effectiveness in achieving its main mission of reducing poverty. But lags between action and impact as well as the complexity of attributing reductions in poverty to specific Bank actions make direct measurement impossible today. With respect to debt relief, however, it is clear that HIPC assistance has lowered debt service payments in countries that have reached their decision point from around $3 billion in 1998 and $2.5 billion in 1999 to $1.8 billion in 2001 and $1.9 billion in 2002. For lending, the very significant increase in the quality at entry of lending projects from a base line of 70% at the start of the Compact to 89% in 2000 should translate into an increase in the development effectiveness of almost $3 billion of the commitments made during FY00 alone, a key measure of the value of the Compact.
Table 4.1: Corporate Scorecard–Tier III

<table>
<thead>
<tr>
<th>Tier III : Internal Bank Measures</th>
<th>FY97</th>
<th>FY98</th>
<th>FY99</th>
<th>FY00</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reach</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall Perception of Bank</td>
<td>-</td>
<td>-</td>
<td>5.3</td>
<td>-</td>
</tr>
<tr>
<td>Focus on Mission</td>
<td>-</td>
<td>-</td>
<td>5.1</td>
<td>-</td>
</tr>
<tr>
<td>Partnership/Communication</td>
<td>-</td>
<td>-</td>
<td>5.4</td>
<td>-</td>
</tr>
<tr>
<td><strong>Products and Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Deliverables Volume</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NLS Volume - $m budget &amp; No.</td>
<td>73.9/266 78.8/291</td>
<td>90.4/387</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Lending Approvals -- $b Committed &amp; No.</td>
<td>19.1/244 28.6/288</td>
<td>29.0/279 15.3/223</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Disbursements -- Gross and Net ($b) - (IBRD)</td>
<td>14.0/2.1 19.2/7.8</td>
<td>18.2/8.2 13.3/2.9</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Disbursements -- Gross and Net ($b) - (IDA)</td>
<td>6.0/5.4 5.6/4.9</td>
<td>6.0/5.0 5.2/4.3</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Memo: Disbursement Ratio</strong></td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td></td>
</tr>
<tr>
<td><strong>Product Quality</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality of ESW</td>
<td>-</td>
<td>72%</td>
<td>73%</td>
<td>86%</td>
</tr>
<tr>
<td>Quality at Entry (CY)</td>
<td>82%</td>
<td>86%</td>
<td>89%</td>
<td>-</td>
</tr>
<tr>
<td>Quality of Supervision</td>
<td>63%</td>
<td>76%</td>
<td>82%</td>
<td>92%</td>
</tr>
<tr>
<td>% Projects rated satisfactory</td>
<td>74%</td>
<td>72%</td>
<td>70%</td>
<td>77%</td>
</tr>
<tr>
<td>Aggregate Project Performance Indicator</td>
<td>6.7</td>
<td>6.7</td>
<td>6.7</td>
<td>-</td>
</tr>
<tr>
<td><strong>Responsiveness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lending - Elapsed Times</td>
<td>41%</td>
<td>52%</td>
<td>57%</td>
<td>-</td>
</tr>
<tr>
<td>Portfolio - Proactivity</td>
<td>70%</td>
<td>72%</td>
<td>83%</td>
<td>84%</td>
</tr>
<tr>
<td>Portfolio - Procurement Composite Index</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NLS Efficiency</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Memo: Realism Index</strong></td>
<td>66%</td>
<td>68%</td>
<td>74%</td>
<td>79%</td>
</tr>
<tr>
<td><strong>Resources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff Development Index</td>
<td>-</td>
<td>-</td>
<td>87%</td>
<td>87%</td>
</tr>
<tr>
<td>Diversity Index</td>
<td>-</td>
<td>-</td>
<td>75%</td>
<td>79%</td>
</tr>
<tr>
<td>Knowledge Management and Learning</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KM - User Satisfaction</td>
<td>-</td>
<td>60%</td>
<td>72%</td>
<td>-</td>
</tr>
<tr>
<td>Learning Effectiveness of Bank Training</td>
<td>-</td>
<td>-</td>
<td>75%</td>
<td>78%</td>
</tr>
<tr>
<td><strong>Cost Performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Productivity Index</td>
<td>100%</td>
<td>91%</td>
<td>101%</td>
<td>94%</td>
</tr>
<tr>
<td>Operational Unit Resources devoted to Client Services</td>
<td>-</td>
<td>68%</td>
<td>69%</td>
<td>72%</td>
</tr>
<tr>
<td><strong>Memo: Frontline Services as % of Net Admin Costs</strong></td>
<td>58%</td>
<td>58%</td>
<td>58%</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Financial Performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income ($b)</td>
<td>1.3</td>
<td>1.2</td>
<td>1.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Portfolio Risk Score</td>
<td>32.8</td>
<td>40.1</td>
<td>42.4</td>
<td>41.7</td>
</tr>
<tr>
<td>Ratio of Equity Capital to Loans</td>
<td>22.1%</td>
<td>21.4%</td>
<td>20.7%</td>
<td>21.2%</td>
</tr>
</tbody>
</table>

Source: Annex 9, pg. 16
4.4 Some more work is needed both on the measurement of the Bank’s overall performance at a country and sector level, and how this links with ultimate development outcomes on the ground in order to complete Tier two of the scorecard (Table 4.2). While CAS quality improved along several dimensions during the Compact period, the Bank does not yet know whether this improvement will translate into improved overall Bank impact on development. The CAS self-evaluation framework introduced early in the Compact has started providing benchmarks but not yet follow up measurement against them. Ex post measurement of sector strategies will also take more time to come in. In addition, client surveys are still few (efforts are now being made to expand them) and, without repeated surveys, it is not possible to assess changes over time. The Bank also needs to better understand the links between improvements in its effectiveness at a country and sector level and development outcomes, as reflected in progress towards the achievement of the international development goals.

Table 4.2: Corporate Scorecard–Tiers I and II

<table>
<thead>
<tr>
<th>Tier I: International Development Goals</th>
<th>CY95</th>
<th>CY96</th>
<th>CY97</th>
<th>CY98</th>
<th>CY99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty (% of people living on less than $1 a day)</td>
<td>25.2</td>
<td>24.6</td>
<td>23.9</td>
<td>23.2</td>
<td>-</td>
</tr>
<tr>
<td>Universal net primary enrollment rate (%)</td>
<td>87.8</td>
<td>88.3</td>
<td>88.5</td>
<td>89.4</td>
<td>-</td>
</tr>
<tr>
<td>Gender equality in primary and secondary education (%)</td>
<td>85.4</td>
<td>85.6</td>
<td>85.8</td>
<td>85.9</td>
<td>-</td>
</tr>
<tr>
<td>Infant Mortality Rates (per 1000 live births)</td>
<td>60.0</td>
<td>59.8</td>
<td>59.6</td>
<td>58.8</td>
<td>-</td>
</tr>
<tr>
<td>Under-5 Mortality Rates (per 1000 live births)</td>
<td>88.0</td>
<td>86.0</td>
<td>84.0</td>
<td>78.9</td>
<td>-</td>
</tr>
<tr>
<td>Countries adopting environmental strategies (%)</td>
<td>49.0</td>
<td>-</td>
<td>50.0</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tier II: Country Assistance Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>(To be completed)</td>
</tr>
<tr>
<td>CAS Initial Quality</td>
</tr>
<tr>
<td>CAS Implementation/Impact Quality</td>
</tr>
</tbody>
</table>

a/ Some Tier I datapoints are trend-based estimates, since actuals are not available consistently for each year.

Source: Annex 9, pg. 15

Costs and Efficiency

4.5 The Bank delivered on its commitment to return in FY01 to the FY97 net administrative budget in real terms. At the same time, however, expenditures on many of the new initiatives have exceeded Compact expectations, efficiency gains overall have been less than the targets, and there have been additional initiatives and demands on Bank resources not anticipated at the time the Compact was launched. The Board approved some additional financing over and above the Compact but this has not been enough to prevent a larger than anticipated squeeze on other aspects of the Bank’s business and an increase in staff overload. Because there are no reliable estimates for some of the additional demands, Table 4.3 is only a partial reflection of the additional redeployments that have been necessary to ensure that the Bank kept to the Compact agreement.
Table 4.3: Administrative Budget Expenditures and Financing of Compact and Other Initiatives, FY00
($ million)

<table>
<thead>
<tr>
<th>Gross Cost of Compact Initiatives</th>
<th>Compact Targets</th>
<th>Actuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refueling</td>
<td>75</td>
<td>91</td>
</tr>
<tr>
<td>Refocusing</td>
<td>55</td>
<td>69</td>
</tr>
<tr>
<td>Retooling</td>
<td>34</td>
<td>56</td>
</tr>
<tr>
<td>Revamping</td>
<td>49</td>
<td>32</td>
</tr>
<tr>
<td>Plus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incremental Cost of Additional Initiatives/Demands a/</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Partnerships and Outreach</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Technical Assistance/Aid Coordination</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Financial Sector</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Other b/</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Minus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compact Funds</td>
<td>54</td>
<td>54</td>
</tr>
<tr>
<td>Approved Adjustments</td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>Savings</td>
<td>86</td>
<td>60 c/</td>
</tr>
<tr>
<td>Equals: Required Redeployments</td>
<td>73</td>
<td>167</td>
</tr>
</tbody>
</table>

a/ Not already incorporated into Compact initiatives.
b/ Mainly business development: does not include incremental costs of fiduciary/safeguard compliance.
c/ Estimate.

Source: Tables 2.1, 3.4, 3.5, 3.9, 3.10, para. 3.13, and CRM—adjusted where necessary to reflect full costs.

4.6 The experience with Compact implementation clearly shows that the budgetary implications of many of the new initiatives and changes in the way the Bank does business (both those anticipated under the Compact and those that were introduced during Compact implementation) were neither properly assessed nor adequately funded. Examples of Compact initiatives whose resource implications were not fully assessed and adequately monitored include partnerships, knowledge management, information systems renewal, and the higher costs of matrix and other management. Examples of initiatives that have been introduced since the launch of the Compact that have had significant budgetary implications include PRSPs, as well as the increased focus on safeguard and fiduciary compliance.

4.7 The experience with Compact implementation also shows that the Bank has not been as successful as expected in improving internal efficiency and in some areas efficiency may even have diminished. Only some of the planned efficiency gains targeted by the CER have been achieved. Full savings (totaling $41 million per year) were achieved in real estate, central unit budgets and medical benefits but only partial or no saving in other areas. In the back-line, systems renewal has temporarily reduced Bank efficiency and the initial changes in resource management systems and processes greatly increased their administrative costs. The complexity of the Bank’s planning and budgeting process and some other processes and systems also acted as a more general constraint to efforts to realize the efficiency gains identified in the Compact and the CER.
4.8 It is also clear that within the Bank budget, the balance between fixed and variable costs has changed little over the Compact period, in spite of the opportunity provided by the provision of separate funds for staff separations and the substantial turnover of staff that this encouraged. For the Bank to remain flexible and responsive to an evolving development landscape, a greater reduction in the ratio of fixed to variable costs will be required.

4.9 In retrospect there are many reasons why the Bank has come to the end of the Compact with a very different pattern of expenditures and realization of efficiency gains from what was expected. In part, the Compact could not have foreseen some of the external compliance and other demands on the Bank—which needed to be addressed to achieve quality as well as credibility and partnership with other development players. Notwithstanding these demands, however, there was generally insufficient attention given to operationalizing cost efficiencies, streamlining and disciplining business processes, and holding people accountable for specific results. Achieving efficiency gains was also hindered by not having appropriate and transparent tracking metrics which could have provided the right diagnostics and motivational push to accelerate results.

Sustainability

4.10 The Compact has clearly resulted in an overall improvement in the Bank’s effectiveness as a development institution in reducing poverty. However, the Compact has led to less then expected efficiency gains and rising costs resulting from additional initiatives and demands. What this means for the overall return to the Compact investment depends in large measure on whether the Compact gains can be sustained and efficiency improved. And this, in turn, depends on continued external and internal support.

4.11 Externally, the Compact fundamentally reoriented the Bank’s relationship with its clients and other stakeholders. The Bank has responded to an increasingly difficult and demanding external environment and to calls for greater public accountability by becoming much more open. It now discloses to the public far more of its documents than before; and the President, managers and staff interact more openly and transparently with the press and civil society. In addition, the Bank has continued to strengthen the independent elements of its governance structure. The Bank has also shown a greater willingness to accept and learn from its experience. All of this has helped promote the external sustainability of the institution.

4.12 Concerns remain, however, about the financial and institutional sustainability of the gains achieved during the Compact. Resource pressures have meant that funding for core building blocks of the Bank’s comparative advantage, including analytic work and lending development, are below Compact expectations and this is a threat to the Bank’s future effectiveness. In addition, staff are overloaded, morale is low, and there is a considerable disconnect between the Bank’s espoused culture and the way people behave with each other. Management recognizes that these issues must be addressed to sustain and build on the gains of the Compact.
B. Lessons Going Forward

4.13 To further enhance the Bank’s effectiveness, improve efficiency and ensure sustainability, the Compact experience suggests important strategic lessons in three major areas:

- Processes for strategic decision-making need to be improved and institutionalized.
- The mechanisms for ensuring implementation of chosen strategies need to be strengthened.
- Other key enablers of a high-trust and high-performance institution need to further developed.

4.14 These lessons, which are at a broad strategic level, reinforce many of the messages that are now emerging from other reports and task forces, including the Annual Review of Development Effectiveness, the Annual Review of Portfolio Performance and the Middle Income Task Force Report, as well as the ongoing work on new deliverables, cost of doing business, decentralization and matrix management. They are lessons that have already been taken into account in the preparation of the Strategic Framework Paper, in the discussions at the Strategic Forum 2001 and in the follow-up work that has been initiated following the Forum and will be reflected in more specific actions in the Strategic Directions Paper and the Programs and Budgets Paper.

Strengthening Corporate Guidance

4.15 The President, the Managing Directors and the Vice Presidents have the shared responsibility for both developing Bank strategy and ensuring its implementation. This ongoing integrative and guiding function needs to be strengthened to ensure that competing demands and opportunities are appropriately balanced; potential alternative approaches are considered; a realistic assessment of the Bank’s resources and capabilities is undertaken; and there is an explicit analysis of probable risks, benefits, and uncertainties. There also needs to be greater ownership and coordinated management of the future strategy and change agenda, and a more systematic and open dialogue among corporate and unit leadership and with the Board on future strategy based on a sound analysis of what is working and what is not. This has begun to take place in the context of the Strategic Framework Paper and the Strategic Forum and needs to be continued.

Becoming More Selective

4.16 The Bank recognizes that a smaller and clearer set of institutional priorities should guide choices within and between countries as well as between the Bank’s country and global business. The varied experience in implementing sectoral, thematic and other corporate initiatives suggests that the Bank also needs to put in place more specific and deliberate processes for achieving this selectivity. The implications (including resource implications) of corporate priorities for internal and external stakeholders need to be better developed and mechanisms/incentives established for ensuring effective
implementation of these priorities. A strengthened and more complete set of sector strategies needs to be developed and sector strategies need to be better integrated with each other and into CASs to ensure that country driven priorities get matched with corporate level expectations.

**Aligning the Mix of Services**

4.17 The Compact explicitly—and correctly—set out to expand and diversify the Bank’s product-service offerings. But those were largely accomplished without analyzing and monitoring the impact on the overall mix of Bank services. The nature, scope, and costs and benefits of new deliverables, such as knowledge management and partnerships, need to be well specified before any mainstreaming is attempted. The implementation of new products and services needs to be appropriately staged (from concept to test, development, growth, and finally exit or mainstream) and based on conscious choices regarding what to test and pilot, what to grow, what to maintain, and what to exit or phase out. This will help capture early learnings and improve the probability of success. Distinctions also need to be made between spending on new business and spending on existing business and appropriate metrics put in place to ensure appropriate returns on both. Otherwise, there is a real risk that some business may be inadequately resourced, as is now happening with lending and analytic work.

**Developing a Shared Understanding of the Knowledge Bank**

4.18 Of particular importance is the development of clear criteria for prioritization of investments in knowledge. Knowledge does not lend itself to easy measurement, and the Bank should guard against only prioritizing what can be measured. However, improved criteria and metrics are essential to prioritize across what amounts to an emerging business line. There is no shared understanding of what the knowledge bank is, nor how its’ various elements fit together. Developing a clearer framework, exploring the ramifications of various options for the Bank’s business model, and aligning all knowledge work via this framework are priorities that were articulated in the Strategic Forum 2000 and again in 2001 and on which further work is now being done.

4.19 Knowledge work at the Bank must be more firmly rooted in client demand. While shifts have occurred, the approach remains too internally focused and supply oriented. This undermines impact, client ownership and capacity-building, learning from the outside world, and skews priorities. Parts of the Bank have learned much about how to best manage knowledge, and it is important that these lessons are implemented Bank-wide. This process of learning and rationalization has not happened sufficiently—and will require stronger leadership, clarity and accountability in future. An ultimate measure of success here is how well knowledge is embedded in the entire mix of Bank products and services, and the extent to which it enables the Bank’s clients to reduce poverty and become more successful in the global economy.

4.20 A key issue in this context is the appropriate balance between knowledge creation, knowledge sharing and knowledge application and, more specifically, the
appropriate balance between ESW, lending development, knowledge management, and supervision. The Compact experience suggests that greater emphasis needs to be placed on ESW (and perhaps research) and on lending development. There may need to be tighter resource envelopes for knowledge management and “other client services” at least until these activities can be better measured and assessed. Consideration also needs to be given to the application of the Bank’s knowledge in the form of lending products and how they can be further modernized and diversified to better focus on results and perhaps save on supervision costs. Ultimately, all of this requires managing the creation, sharing and application of knowledge not as competing activities, but as elements of an integrated system.

**Linking Strategic Priorities and Resource Allocations**

4.21 The Bank needs to strengthen the links between strategic planning and budgeting processes, and to ensure that budgets are consistent with the chosen strategy. The Compact brought a focus on a long term outlook explicitly linked to and supported by mid term (three year) milestones and short term (one year) deliverables and this should be maintained. However the Compact’s forward planning was in many respects “frozen” during implementation. Lacking an institutional mechanism to address shifts in internal realities and external developments, the Board and Management found themselves having ad hoc and one-off discussions on changes in program and budget priorities. In recognition of the dynamic environment in which it operates, the Bank needs to move to a more flexible rolling three-year planning and budgeting process, as is being proposed for this coming fiscal year. Risks, uncertainty, and volatility need to be explicitly accounted for in the planning process and contingencies explicitly built into the planning and budgeting process.

**Further Reforming the Budget Processes**

4.22 The Bank’s budget development, management, and tracking functions are under reform and there is clear Management agreement that this process needs to be continued. The development and allocation of the budget needs to be more closely linked to and driven by corporate and country priorities as reflected in country and sector assistance strategies and other policy and administrative support initiatives. This requires fully costing all strategies and new initiatives and using a hierarchy of priorities to guide trade-offs. Efficiency targets also need to be established and supported ex ante by specific implementation plans and accountabilities. The quarterly business reviews and the Dashboard need to be effectively used as key tools for the continuous management and tracking of the budget, including expected efficiency gains. The internal charging and WPA system needs to be radically simplified and made consistent with desired behaviors, particularly with respect to teamwork, knowledge sharing and cost efficiency. The system should also allow for transparent tracking of expenditures against specific corporate priorities. Proposals along these lines are now under preparation. They should result in a major reduction in the time and resources used to develop and support budget related activities.
Enhancing Performance-based Management

4.23 Several steps need to be taken to ensure an effective focus on performance. First, performance measurement should capture corporate priorities and strategies. It falls short of this at present, e.g., with regard to new products, special initiatives, and the efficiency of back-line units. Second, resource allocations to units as well as programs/initiatives should be commensurate with the agreed target performance, with neither underfunding nor slack that undermine accountability. Third, performance management processes regarding deliverables, financial resources, and human resources should be further integrated. And fourth, accountability for a unit’s measured performance should be fully reflected in managers’ personnel evaluations.

4.24 The Bank’s ultimate objective is poverty reduction and since this is a long-term and complex process, the Bank would benefit from the active use of a corporate scorecard. The Compact provided for such a scorecard but it was only partially completed and not effectively used. If used in a consistent and disciplined manner, it would supplement the short-term oriented Dashboard and the project/program specific tracking systems with a longer-term, comprehensive view. Among other things, it would need to capture the Bank’s impact on the international development goals.

4.25 Long-term impact measurement requires the sustained use of a stable set of indicators. This calls for measurement with sufficiently generic indicators, adequate funding, and governance that can ensure discipline in execution. Sustained use also requires broad buy-in. This could be fostered through clarity of the indicators and their active use in performance management. Pragmatism also needs to prevail over perfectionism in selecting indicators. Regular client surveys should be an integral component of the measurement system.

Realizing the Full Benefits of Decentralization and Matrix Management

4.26 Decentralization needs to be further promoted with the CAS process being more explicitly used to manage the trade-off between enhancing the Bank’s understanding of the local environment through decentralization and its unique capacity to deliver global knowledge and expertise. Through this process, top-down strategic and bottom-up client concerns and priorities can be integrated and staffing and resources strategically managed. Good matrix practices and behaviors also need to be made the institutional norm—for sector boards, for country teams, and for management of the regional sector units—and be supported by appropriate budgeting and human resource practices. Country and regional sector directors as well as the anchor and corporate managers need to be responsible for providing timely, quality input to the development of corporate strategies, RVPs need to play a more pro-active role in country/sector balancing and Sector Boards need to strengthen their work on sector strategies. Matrix decision-making processes and skills also need to be improved so that the inherent conflicts are more effectively resolved.
4.27 Realizing the full benefits of information systems renewal is directly dependent on further streamlining business processes, enhancing reports, and improving user skills and behaviors to fully use system capabilities. The Bank is now in a position to build upon a powerful enterprise-wide platform and continue process simplification and standardization efforts. In the area of reporting, recent enhancements of country director and sector director reports provide valuable and timely information to track project progress and associated costs. These reports also aid in cross-unit comparisons. Because system usability has improved, staff now need to increase their reliance on data and reports accessed directly from the system. The new standard formats can also facilitate knowledge sharing and streamline review processes. These areas hold promise for realizing significant benefits from the Bank’s substantial investments in information systems renewal.

4.28 The Bank needs to more efficiently implement a coherent and strategic approach to staffing that is responsive to corporate priorities as well as unit specific needs. The overall level of staffing in the Bank needs to be carefully managed in relation to budget resources to assure sufficient flexibility to respond to changing client needs. The highly decentralized process for staffing and skills mix decisions in which sector staffing plans and priorities serve only as a backdrop to local decisions needs to be augmented by a more active involvement of regional and network management and human resources. The optimal location of staff needs to be considered from a corporate as well as a country perspective—to ensure that there are adequate numbers of senior and experienced staff in the field to match the intended devolution of authority and that there is an appropriate balance between global and local perspectives. In addition strategic staffing needs to be used to enhance the diversity of the Bank in all its various dimensions.

4.29 The Bank needs to eliminate the disconnect between its espoused culture and the way people behave with each other. It needs to accelerate the change towards becoming a more client-focused, pragmatic, innovative, collaborative, listening, and high-trust organization. The Bank needs to find a better balance between the “hardware” of change (strategy, structure, process, systems) and the “software” (culture and behaviors) and reinforce necessary linkages. Managers at all levels need to be visible role models of the behavioral shifts that are required. They need to be innovators and champions of agreed strategies and changes.

4.30 Learning needs to reinforce the desired cultural change. Behavioral and leadership learning needs to be scaled up at all levels and managers and senior staff need to be helped to become more effective coaches and mentors. Managers need to reward behaviors that support desired cultural change, and both managers and staff need to be held accountable for their behavior. Improved communication and genuine engagement between managers and staff have a big role to play. Information flow needs to be more
transparent, and done in a manner that builds trust and mutual commitment. At present information is sometimes not touching many staff because it is perceived as out of touch with staff reality.

Mobilizing and Empowering Middle Management

4.31 While the Compact was intended to fundamentally transform many aspects of the institution, the vision, rationale and urgency for change was not made clear or relevant to many managers. Middle managers are of particular importance because they are responsible for most of the day-to-day business of the Bank, and have the closest interaction with staff. How these managers role model their interactions with their own clients, supervisors, and subordinates defines the de facto culture of the institution. Furthermore, middle managers have a unique opportunity and ability to help staff’s understanding of corporate strategy and senior management’s understanding of the realities on the ground. As the Bank moves to the next stage of evolution, it is vital that middle managers are empowered as active participant-leaders in the change process.

Concluding Remarks

4.32 The Strategic Compact launched in 1997 represented an ambitious plan to fundamentally transform the World Bank and make it more effective and responsive to a changing development landscape. Four years later, this Assessment confirms that the key thrusts of the Compact were both correct and forward-looking. It is also evident that the Compact has not delivered on all of its initial aspirations within the intended time frame.

4.33 Institutional change of the nature and scale embodied in the Strategic Compact inevitably takes longer than the three years set aside for this. In retrospect, it is easy to point to what could and probably should have been done differently: expectations of rapid change should have been better tempered with organizational realism; the change process itself should have been more tightly managed with accountability for progress clearly linked to ongoing resource allocations; more effective communication with and engagement of staff; and a greater awareness of the organization’s capacity to change directions while maintaining current momentum. But these observations notwithstanding, it is clear that the Bank today is quite different as an institution than what it was four years ago in terms of its own role in the development community, and its ability to respond to an environment in which its comparative advantage and the demands on it have both changed. The Bank has accomplished a great deal, while laying the foundation for future change, to build on the progress, to address deficiencies, and to act on the lessons learned.