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Statement by

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Today's approval of the World Bank Group strategy is a first important step towards achieving the twin goals of ending absolute poverty and promoting shared prosperity within a framework of environmental, social, and financial sustainability.

The President deserves full support and strong guidance from the Board of Governors at the outset of the implementation of the strategy.

In this spirit we are pleased to offer our reflections.

Selectivity and comparative advantage of the WB Group

A key guiding principle for WB Group interventions should be their alignment with countries' development plans. However, in practice the Group has not always been as selective as it should have been in responding to clients' development needs, and sometimes it has stretched this principle in areas where it had no strong expertise.

The lack of selectivity is particularly acute for the World Bank operations. As a consequence, in recent years, we have witnessed a faster than expected reduction in lending volumes, a growing amount of undisbursed funds, and a somewhat declining quality of projects.

The new strategy is a unique opportunity to rethink the balance between the desire to respond to clients' demand and the necessity to provide services of the highest quality for development.

Management's effort to achieve selectivity by matching the WB Group comparative advantages with clients' key development needs is most welcome.

This approach has already produced several innovations in the Bank's business model: a new framework to engage with countries rooted in an evidence-based assessment of their specific needs; a new organization of the thematic units into a limited number of Global Practices to help the Bank to focus its resources where they have the highest development impact.

This design requires now a thorough implementation, and this will pose new risks and challenges.

First, the re-emergence, within each Global Practice, of the "wholesale model" that provides almost everything to every client within each Global Practice. The remedy is a constant and systematic application of selectivity in the choice of projects.

Second, the lack of communication among Regions, which, in the past, has prevented a smooth flow of knowledge across all Bank units, could remain a problem even with Global Practices. This risk can be mitigated by establishing effective coordination mechanisms to share development solutions among Global Practices.

Third, the absence of a clear accountability line, given that in the new model, both Regional Units and Global Practices will share responsibilities in delivering solutions to clients. An effort to define accountability among units is therefore necessary.

Finally, the objective of having a flexible budget allocation process, allowing for a rapid deployment of resources where they are most needed, might be in contrast with the goal of keeping adequate technical skills in areas crucial for the Bank's core business. Adequate mechanisms should be established to ensure a balance between these two objectives, while avoiding the rigidity of the past and satisfying the budget constraint.

The countercyclical role of the World Bank Group

Traditionally, the World Bank has played a countercyclical role especially during downturns. In the midst of the financial crisis it was able to lend 66 billion of dollars in a single year (2010), almost three times the level recorded in the pre-crisis years. The new strategy does not acknowledge this important role of the WB Group, which, however, is useful and should be retained. This is especially true, in the current environment, which is characterized by high volatility in financial markets and reliance by many Bank's clients on short-term capital flows to finance current account imbalances. Nonetheless, maintaining a countercyclical capacity has far reaching implications for the Bank's business model.

In particular, the Bank needs to keep an adequate buffer of unused financial reserves to be able to quickly intervene when needs arise. The buffer is an implicit burden on the efficiency of the Bank and it has to be factored in when setting loan prices. Prices need to include an insurance premium for the potential countercyclical lending.

Working as a Group while keeping individual brands

The new strategy rightly emphasizes the need for a strong and effective coordination among the four entities of the WB Group. Much has to be done to strengthen synergies and better coordinate efforts to provide clients with development solutions. In this context, we highlight the importance that the "gender agenda" needs to keep across the entire Group.

However, the four institutions have different mandates, corporate cultures and business models through which they reach out to different clients.

In particular, the IFC has managed to increase the visibility of its brand and today commands much respect as a reliable and valuable partner for private sector entities in developing countries.

This asset needs to be preserved.

The Financial implications of the new strategy

The President's endeavor to set a new course for the WB Group needs to build on three key elements: a set of goals, a coherent strategy, and a consistent financial plan.

The first two elements are almost in place, the third one has not been fully developed yet.

Management's ongoing effort to put the Bank on a more solid and sustainable financial path is highly commendable. This is the first time that a comprehensive plan to shape a more efficient Bank is in the making.

In the past we voiced some concerns on the financial strength of IBRD. Consequently, we are pleased to see, today, a plan to boost the Bank equity base in the next 10 years, via an increase in revenues and a reduction of costs. A stronger equity base, combined with a more efficient use of the Bank's capital, will permit a significant step-up of its lending capacity.

However, it is important to ensure full coherence between this plan and the financial needs of the new strategy without calling for a new capital increase and while maintaining a prudent risk profile.