

A joint meeting of the Budget Committee and the Committee on Development Effectiveness discussed management's paper on Shifts and Trade-Offs to Fund Plans and Priorities (SecM2006-0531).

Conclusions and next steps. The committees welcomed the opportunity provided by the discussion and also commended staff for their effort in putting forward this paper. Nevertheless, many members pointed out that the content of the paper did not meet their expectations in properly setting forth the strategic context for the second stage of the budget cycle. They were puzzled by the listing and categorization of priorities in the paper. In this regard, they noted the absence of any criteria for determining strategic priorities, a medium-term (5 or 10 year) framework to assess choices or expected results, and of a methodology to link trade-offs with their budgetary implications. In this regard, speakers appreciated the note prepared by IEG, which pointed to ways the Bank could maximize development impact. Relatedly, speakers questioned or even disagreed with the notion of competitive advantage suggesting that comparative advantage or core competences were preferable concepts for formulating the World Bank's corporate strategy.

Some speakers noted and expressed their appreciation for some useful information disclosed to the Board for the first time, especially the expected redeployment of 15% of the Bank's resources over the next three years. This could be a powerful positive signal for external as well as internal audiences but it was also a delicate matter with serious implications for staff morale. Accordingly, it was very important to have a credible and careful deliberative process.

In the absence of an adequately articulated framework, speakers found it difficult to understand or assess budgetary implications. Some requested further quantitative information (a paper) to complete the second stage of the budget cycle while others felt a "real strategy" paper was needed before the MTSF and certainly before the start of IDA 15 negotiations.

With regard to specific budgeting aspects including the questions listed in the Chairman's Issues Note, members sought more information on a number of topics including: flat budget prospects; productivity tax; implications of further decentralization; impact of organizational changes; effect of realizing greater synergies with IFC and MIGA greater boldness with priority initiatives such as the Africa Action Plan; deployment of the contingencies

states of the SPCs which had been presented as a resource allocation mechanism in June; consistency of cuts with the Bank's actual cost drivers including travel costs, consultants, etc.

The Chairman concluded with respect to the next steps that the Board would be required via the Green Sheet to consider two options: delay the Board meeting currently scheduled for Thursday, January 11th until the paper is redone, or try to reduce the information gap, e.g. through an additional paper by the time of the MTSF.

A Green Sheet will be prepared quickly and it is hoped that at least a draft can be distributed to the Board before Thursday.

The main topics discussed were as follows:

Articulation of strategy. A number of speakers (Canuto, Zou, O'Brien, Mordasini, Majnoni, Kanda, Ong Seng, Kohler) felt that the paper simply provided a list of priority items without articulating criteria (other than immediate vs. long-term budget impact) or a rationale for their selection. In addition, speakers (Kuijper, O'Brien, Kohler) felt management had not outlined a "vision" for the Bank linked to both a medium- and long-term outlook as well as implementation of IDA 15. Members (Familiar, Mordasini) also voiced concern that the paper sent a different message from the one presented in October, which may be confusing: specifically, the earlier paper had not viewed "additional priorities" as being of secondary importance. In the same vein, others (Watson, Scholar, McCoy, Vulcanam) stated that existing and emerging priorities should be clarified well before the budget discussion in June to avoid the budget document becoming a "fait accompli". Speakers (Van Houtte, McCoy) stressed the need for priorities to be consistent with a results agenda and inquired at which stage the Board could influence the final outcome.

Link to budget. A number of speakers (Canuto, Almofadhi, Sinamenye, Scholar, Ong Seng, Zou, Watson, Vulcanam) felt that, while the paper represented something of a positive step in process terms, it fell short of its objective to establish a link between strategic priorities and budget allocation, particularly for FY07 and FY08. In particular, the paper's failure to coherently outline the implications of tradeoffs was noted (Canuto, Sinamenye, Watson). Speakers (Sinamenye, Kohler) expressed the view that tradeoff decisions should be made at the time the budget is formulated,

and not while it is being implemented. In this regard, a few speakers (Mordasini, Kohler) felt the paper was a “lost opportunity”: others (Watson, Zou) were of the view that it was simply not possible to meaningfully discuss the budget without a goal-oriented strategy. Nevertheless, members (Scholar, Mordasini) noted that the document had provided some useful information regarding how budget decisions are reached, and how programs might be adjusted. A member (Watson) also reminded that setting strategic priorities is not the responsibility of the Finance Complex but of top management as a whole. Some members (Familiar, Kanda) noted the paper’s statements that increased budget did not signal greater development effectiveness.

Board/management engagement on strategy. Speakers (Canuto, McCoy, Van Houtte, Kohler, Watson, Vualnam, Scholar) expressed the strong sentiment that the second phase of the Board/management engagement on strategy had not been completed. They requested more information (perhaps in the form of an additional paper) or an opportunity for further dialogue be provided before the MTSF. A member (Scholar) suggested that perhaps another vehicle for delivering and discussing such information might be considered

Competitive vs. comparative advantage. A number of speakers (O’Brien, Watson, Mordasini, Majnoni, Ong Seng, Kohler, Van Houtte, Canuto) questioned or disagreed with the notion of “competitive advantage” as a guiding principle for setting priorities; in their opinion “comparative advantage” or “core competences” would have provided a more relevant framework enabling clearer choices of priority activities and operational objectives.

Staff morale. A number of speakers (Sinamenye, Majnoni, Watson, Kanda, Ong Seng, Van Houtte, Familiar, Mordasini, Mohd Nur) expressed concern that changes in budget allocations would have a profound negative impact on staff morale. Some (O’Brien, Scholar, Majnoni) felt strongly that to alleviate uncertainty and obtain greater buy-in, management needed to give a clear sense of direction to staff. Members (Kuijper, Sinamenye, Familiar) would have liked to see management articulate suitable “mitigation” strategies in this regard, and proposed increasing transparency and refining communication strategies.

IEG. Several members (O’Brien, Scholar, Ong Seng) felt that the paper

provided by IEG was helpful, thought-provoking, and a source of valuable guidance for ways to increase development impact.

Zero real increase assumption. A speaker (Alhaimus) sought clarity regarding the assumptions behind the continuation of a zero real growth budget, while a member (Sinamenye) wondered if this still made sense in light of the Bank's expanding mandate.

Redeployments . Members (Canuto, Mordasini, Kohler) would have liked the paper to have presented more estimates for redeployments and efficiency gains – particularly the expected impact of the approx. 5 % annual redeployment in the next three years. The question was asked whether they were consistent with the Bank's main cost drivers (van Houtte). Speakers (Mordasini, Kohler) felt it was important for management to provide estimates of cost pressures.

Organizational changes/decentralization. More information (Kanda, O'Brien, Kohler, Watson) was sought on the cost and effect of organizational changes, network mergers, and increased decentralization on the budget.

2% productivity "tax". One member (Ong Seng) expressed the view that the productivity tax was not sustainable in the long term. Other speakers (Almofadhi, O'Brien) questioned how the proposed differentiated tax would work in practice.

Contingency funds A member (Scholar) asked where the requests for deploying contingency funds came from and how they would be met. Another member (Sinamenye) suggested that guidelines be established for their use.

Efficiency gains. Questions were asked whether additional efficiency gains could be achieved particularly by greater simplification in lending, as well as the extent to which they could be used as additional resources (Scholar, Mordasini). A member (Sinamenye) cautioned that efficiency gains alone cannot fund long term priorities. Another (Canuto) noted that some savings (travel) were independent of the priority setting.

Corporate services/line items. A member (Familiar) suggested that corporate services be benchmarked where appropriate. It was also suggested

(Watson, Majnoni) that further synergies with other WBG institutions be explored, including consolidation of back office functions. A speaker (Kohler) felt that it was important to look at the nature of expenditures (e.g. communications), independently from the way in which they were reported by VPUs.

Strategic Performance Contracts. A speaker (Vualnam) asked about the status of the SPCs. It was also noted (Sinamenye) that the paper did not discuss the budget reform initiative.

Africa/fragile states. Some members (Watson, Ong Seng) sought more specific information on the Bank's strategy in Africa. Others (O'Brien, Sinamenye) noted the need to look at integrated and complex issues (e.g. fragile states, LICUS) or global public goods (clean energy) (Watson). Reflecting on Africa's top priority status, a speaker (Vualnam) wondered why IDA lending in the first half of FY07 was lower than in the same period in FY06.