Global Consultations on the World Bank Group Energy Strategy Summary of Inputs Received during Phase I

As part of its preparation of a new Energy Strategy, the World Bank Group held global consultations from January to August 2010 on an <u>Approach Paper</u>. Some 2,100 participants— representing stakeholders from government, civil society, the private sector, and academia, among others—commented on the Approach Paper in 56 face-to-face meetings held around the world, while another 170 submitted written comments.

What follows is a summary of feedback received during this first phase of consultations. As previously indicated, it is posted here to complement a more detailed summary of each meeting, as well as written submissions that are also available on the <u>Energy Consultations</u> <u>website</u>. Points raised by a wide range of participants are reported here, while there has also been an effort to do justice to those inputs that—while less frequently heard—reflected specific constituency concerns.

This summary is intended as a reflection of what has been presented, without predetermining the content of the strategy itself. Throughout the consultations, it was evident that there are widely diverging views on the challenges, priorities, and tradeoffs in the energy sector, and on the appropriate role, policy stance, and interventions by the World Bank Group. It was emphasized throughout that the purpose of the consultations was not to attempt to develop a strategy that would meet with approval from all parties, but rather to ensure that the Bank Group's senior management and Board of Executive Directors have a full appreciation of the variety of views and choices that have been made in developing the draft strategy.

Participants in the face-to-face meetings, most of which were moderated by an independent facilitator, viewed a PowerPoint presentation based on the Approach Paper and were then asked to respond to the following six questions:

- 1. Where do you think the help of the World Bank Group in the energy sector in developing countries is most needed?
- 2. Does the proposed approach adequately address the needs of the poor and marginalized? If not, how could it be strengthened?
- 3. Does the proposed approach strike the right balance between meeting the needs and priorities of low-income countries and those of middle-income countries?
- 4. Where there are trade-offs between meeting the local energy needs of individual countries and reducing global greenhouse gas emissions, what principles should the World Bank Group follow in resolving the trade-offs?
- 5. What should be the role of the World Bank Group in promoting new technology and/or helping to transfer existing technologies to new markets, and how much weight should the Bank Group give to each?
- 6. What other suggestions or comments do you have?

The above questions were used to organize the discussion and draw out a general debate. For the purpose of summarizing the comments, a large majority of them can be summarized under four themes:

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The leading sentences in bold do not necessarily represent majority views of consultation participants, but rather represent important stands of opinions that were expressed.

1. Priorities and areas of engagement for the World Bank Group

The proposed twin objectives—improving access and reliability of energy supply and facilitating the shift to more environmentally sustainable energy development—are appropriate but need some qualifications.

"Energy" in the first objective should include both electricity and fuels. Particularly important is the access of households to clean cooking and heating solutions.

Include "affordable" in addition to reliable in the first objective. The affordability criterion will help ensure that "clean" but expensive solutions are not imposed on developing countries, and especially in extending access to the poor.

Environmental sustainability should continue to include local and regional environmental concerns, and should not be solely or even primarily about greenhouse gas emissions.

Access of public service providers (clinics, schools, street lighting) to electricity is also important. Access to energy is fundamental to achieving the Millennium Development Goals in education and health.

Add a third objective in the form of combating vulnerability and improving resilience to price volatility, supply disruptions, resource depletion, and climate change.

Continue to engage in policy analysis and advice, assistance for technical and regulatory issues, and capacity building.

These areas arguably represent the WBG's greatest comparative advantage.

These are needed in every sphere of the energy sector: energy efficiency improvement, renewable energy development, infrastructure operation and maintenance, increasing access, making the sector financially sustainable, energy pricing, enabling productive uses of modern energy, increasing governance, and awareness-raising. Local capacity building is particularly important to ensure that projects continue after cooperation with international partners ends.

Assist governments in long-term planning. Energy planning has disappeared from many lowand middle-income countries.

Tackle access to modern household fuels more.

The approach paper focuses too much on the power sector at the expense of other forms of energy. The paper might be better described as a proposed power sector strategy in middle-income countries under global carbon constraints. Although the number of people who lack access to electricity remains alarmingly high, nearly twice as many people continue to rely on traditional solid fuels for cooking and heating, with serious health and environmental consequences. Access to clean cooking and heating solutions is important for empowering women. Reducing time spent on fuelwood collection frees up a significant amount of time that can be spent on more productive activities, and can also increase school attendance by children.

Promote biogas as a clean, renewable household energy.

Promote sustainable production of woodfuels (firewood and charcoal) and more-efficient, less-polluting biomass cookstoves. Solid fuels are here to stay because many households will continue to lack the cash needed to switch to a gaseous fuel or electricity for cooking and heating. Help them by ensuring that biomass is sustainably harvested and by contributing to the development and dissemination of improved biomass cookstoves.

Promote fuel switching to liquefied petroleum gas. Do not adopt the black-and-white position that fossil fuels are bad and renewable energy is good under all circumstances. In the extreme, even if 2 billion households were suddenly to switch from biomass to liquefied petroleum gas today, the net increase in greenhouse gas emissions globally would be very small, while health and gender benefits would be considerable.

Include interlinkages to other sectors that are large consumers of energy or suppliers of energy sources with a view to greening their development.

The sectors include transport, forestry, urban, water, and agriculture. Fuel consumption in transport in particular accounts for almost a fifth of total world primary energy supply.

Given that hundreds of millions of households in developing countries will continue to rely on biomass for the foreseeable future, sustainable production and harvesting of wood for household use and charcoal production, and energy-efficient production of charcoal are both critical. The energy sector and forestry sector need to work closely together.

As urbanization proceeds at a rapid pace, it is important to ensure that emerging cities are energy-efficient and making maximal use of low-carbon technologies and energy sources.

Provision of safe water requires energy for pumping. Without coordination between energy and water sectors, progress in increasing access to safe water and in making efficient use of energy could both be compromised.

Agriculture not only uses energy for powering equipment such as tractors and irrigation pumps but provides feedstock for biofuel production. The latter needs to be examined carefully, recognizing that the first priority in development is food security—strengthening energy security should not come at the expense of food security.

Promote productive uses of energy as well as development of local energy markets to reduce poverty and ensure the financial sustainability of the sector.

Asking the poor to spend a higher proportion of their income on energy consumption without increasing their cash-earning ability is unlikely to be sustainable in many circumstances. One way of increasing affordability is to integrate the poor in energy solutions, such as by making them producers of energy. Another is to promote productive uses of energy for income generation.

Developing the local economy and strengthening the purchasing power of the poor can increase energy consumption, achieve economies of scale, and improve the financial sustainability of the energy sector. To that end, promote local businesses through provision of reliable modern energy, help increase productivity (for example, through switching from mechanical to motorized grinding), enhance access to appropriate forms of enterprise and consumer financing as well as technology, and develop local energy markets—to supply and maintain energy infrastructure—and foster associated entrepreneurship.

Be more selective.

The approach paper envisages the WBG as doing just about everything. In so doing, the paper avoids making strategic choices.

Accept a tightly defined and limited role focused on the WBG's core mission.

In addition to staying out of nuclear power, reallocate resources away from activities that may have short-term benefits but potentially adverse long-term consequences.

The WBG should be a lender of last resort. Fossil fuel projects are more financially viable than many low-carbon projects. As such, there is no compelling case for the WBG's involvement in fossil fuel projects. Where the WBG's involvement is really needed is financing energy sources and technologies that are not yet commercially competitive with traditional energy sources, or where the business case is weak and project preparation and implementation difficult, such as extending access to the rural poor.

Broaden the scope of work on governance.

Include accountability to consumers and beneficiaries. Governance should encompass accountability, transparency, and public participation in decision-making.

Adopt the approach used in the Extractive Industries Transparency Initiative, bringing the government, energy companies, and civil society to the same table in other areas of the energy sector. Ensure that both women and men participate in these processes.

Engage in social issues more.

There should be greater emphasis on human rights, gender, empowerment, consultation, and local community participation and ownership.

More attention should be paid to the human rights of affected people, including indigenous people. The strategy should explicitly refer to human rights.

Project design should pay more attention to gender differences: there are differences in the needs for and use of energy, the ability to obtain credit, and the ability to pay. Women are also under-represented in decision-making processes and in the energy supply chain.

Local community participation and ownership both enhances the sustainability of energy programs and helps reduce chances of vandalism.

Promote use of domestic energy sources.

Reducing reliance on imported fuels is important, especially given high price volatility in recent years. Domestic energy sources create local jobs, and revenues accrue to the local community or the country.

Solar, wind, biogas, geothermal, and hydropower, particularly in rural areas, merit special attention.

Biomass for power generation is another example.

Using domestically-grown feedstocks or biomass residues to produce biofuels enables substitution of imported fuels while spurring rural development. Africa in particular can benefit by promoting production and possibly export of biofuels to Europe.

Promote South-to-South cooperation.

Areas of cooperation include knowledge transfer, energy trade, and technology cooperation.

Help increase uptake of new technologies.

Technology *cooperation* should be the model. The type of technology transfer whereby a foreign firm from a developed country sells technology in a developing country and then leaves is not sustainable. The new technology being adopted should be co-owned, and enough local capacity should be created to operate and maintain the supply infrastructure.

Local ownership and production of new technologies is indispensable.

The new technologies being promoted must be appropriate in financial, technical, and social terms, adapted to the local circumstances as needed.

Efforts should be made to avoid a "picking winners" approach.

Help strengthen local capacity for research and development.

Help create regulatory and policy certainty to spur investment and innovation.

Raise awareness and increase acceptance. All parties need to be better informed to build the momentum needed for a transition to a more sustainable energy sector.

Recognize and respect intellectual property rights, in law and in practice.

New clean technologies are protected by intellectual property rights and require large royalty payments. Consider how to assist developing countries by making these technologies affordable.

Consider developing new financial instruments designed specifically for the risk profile of newly commercialized technologies.

2. Balancing energy sector development with climate change mitigation

The pursuit of synergies should be given high priority.

There is enormous unexploited potential for increasing energy efficiency. Energy efficiency should be maximized across the supply chain and in consumption. Reducing the amount and costs of energy consumed is beneficial under all circumstances, but especially for the poor who are cash-constrained, and efficiency improvement can increase the affordability of modern energy services. Integrated resources planning should be an integral part of the WBG's work in the sector. Rehabilitation of the existing infrastructure to increase efficiency, where feasible, is an important example of supply-side efficiency improvement.

Small-scale, off-grid renewable energy may be the most cost-effective means of extending access in rural areas.

Natural gas is an economic bridging fuel, much lower in carbon intensity than coal or oil. Technologies using natural gas are commercially proven, while efficiency gains continue to be made.

Hydro projects, large and small, can meet the two objectives cost-effectively. Provided that the high upfront costs can be financed, it is an affordable option for ultra-low-carbon base-load power generation.

Nuclear energy can meet the two objectives cost-effectively. It is a commercially proven technology for ultra-low-carbon base-load power generation that can be used in many developing countries.

For the poor, supplying more energy that is also affordable is the first priority.

Acknowledge the over-riding importance of development objectives, poverty reduction, and energy access. For countries with low per capita carbon emissions and large energy shortages, the first of the twin objectives is much more important than the second. Increasing affordability is of paramount importance. If access to electricity and modern household fuels is provided to all currently non-served households with today's energy mix, the net increase in global greenhouse gas emissions would still be very small. This also suggests that it would make sense to develop separate strategies for low-access/low-emitting/low-income and high-access/middle-income countries.

The burden of reducing greenhouse gas emissions should not be shifted from developed to developing countries, and especially to the poor. This discussion should not become a sermon from developed countries—which continue to emit at high levels—to the developing world which emits far less but is now told to control emissions. The many in the developing world, for whom subsistence is the issue, should not be made to sustain someone else's better lifestyle. Renewable energy is generally more expensive, and that is why large subsidies (such as feed-in tariffs)—paid for either by consumers or taxpayers—are needed to support it globally and why even high-income countries have not shifted largely to renewable energy but continue to consume fossil fuels and build new coal-fired power plants. Those who say that developing countries should focus primarily on low-carbon

technologies today do not understand poverty, or else they are acting like Marie Antoinette of France, saying of the poor, "Let them eat cake."

One problem is that the WBG does not work in, nor has any influence over, developed countries. Developed countries should be the first to pledge to phase out fossil fuels and demonstrate how costs of renewable energy can be brought down.

The WBG must make a distinction between countries and regions with low access and negligibly small contribution to carbon emissions, and those mostly middle-income countries and emerging economies where greater attention to carbon intensity can be justified.

The WBG is not, nor should it seek to become, another Global Environment Facility.

Sustainable development is best understood as a balance across environmental, economic, and social considerations.

Poverty cannot be reduced unless climate change is tackled at the same time.

As the *World Development Report 2010* recognizes, global warming threatens to reverse development gains. The problem at hand is not about a choice between growth and climate change. If developing countries follow the development path of developed countries, consequences for global warming will be serious and their growth potential will be dented, especially in Sub-Saharan Africa. The twin objectives need to be pursued simultaneously.

The coming decade is the most critical one from the point of view of climate change. Acting with a long-term view is key.

All actors should act in a way that is consistent with limiting the global temperature increase to 2 degrees Celsius. It is important not to lock developing countries into carbon-intensive energy infrastructure, which will have consequences for decades to come. This will also help these countries minimize risks associated with high and volatile fossil fuel prices in the future.

It is imperative that developing countries not repeat the mistakes of developed countries, which pursued carbon-intensive industrialization with the serious adverse consequences the world is wrestling with today. Assistance should be provided to enable developing countries leap-frog and embark on a low-carbon growth path.

For most or all of the poor, small-scale, off-grid renewable energy can most economically extend access to electricity. Low or zero-carbon solutions exist in abundance and are affordable.

The poor live in rural areas where extending the grid or delivering petroleum fuels is prohibitively costly. Solar home systems, solar water heaters, biogas, wind, and pica- and micro-hydropower are less costly and affordable. Off-the-shelf technologies are ready for the market and can meet the needs today.

Ensuring that projects involving fossil fuels are designed to be highly fuel-efficient is important, as is carbon capture and storage (CCS).

High-income countries with high per capita emissions and energy consumption should lead in moving away from fossil fuels. For developing countries with low emissions and serious energy shortages, the only requirement should be that each fossil fuel project is more fuelefficient than the last.

The International Energy Agency estimates that if older, less-efficient coal-fired power plants are made as efficient as new ones, raising the average efficiency from 29 percent to 45 percent, annual global carbon emissions would be reduced by 1.4 gigatonnes, equivalent to about 5 percent of global emissions, or the total reduction targeted by the Kyoto Protocol on Climate change. Such rehabilitation is clearly an effective approach to climate mitigation.

It is widely acknowledged that fossil fuels will continue to play an important role in the coming decades. Developing countries should be encouraged to adopt the cleanest fossil-fuel-based technologies already available, and given assistance to support CCS when commercially feasible, not only financially but with policy, planning, and capacity building.

Including externalities and future price volatility in economic assessment of all projects should help assess the merits and costs of projects more objectively and on a common basis.

Cheap carbon-intensive energy is no longer cheap if externalities are taken into account.

GHG emissions accounting for every project—gross, net, pro-rate, project-based—can inform portfolio analysis and decision-making.

Projected volatility of fossil fuel prices and cost reductions for renewable energy technologies should be included in all project assessments to eliminate a bias against renewable energy based on today's costs.

Modern portfolio theory should be used to analyze the mix of energy sources for optimization. Taking costs as well as risks into account in this way will show the benefits of renewable energy more clearly.

There is no silver bullet, no easy technological fix for reconciling development and climate change.

The response to each situation depends on the local circumstances. Each situation should be assessed without precluding any energy sources or technologies in advance, and in consultation with, and with cooperation of, local actors.

Every technology, every energy source has a trade-off: financial vs. economic, short-term vs. long-term, and environmental—solar requires land clearance, or land and water, wind can interfere with bird migration, and so on.

3. Defining the strategy—how to achieve the objectives

Set specific and ambitious targets for the twin objectives.

Set targets for the numbers of households with access to electricity and to cleaner fuels for cooking and heating.

Set increasingly stringent portfolio-based targets for mitigation. Suggestions include (a) 80 percent of the energy portfolio for renewable energy and energy efficiency by 2015, (b) 50 percent renewable energy by 2015 and 70 percent by 2020, (c) increasing lending for renewable energy and energy efficiency by 40 percent each annually, and/or (d) a declining share of lending for fossil fuels.

Base targets on outcomes, not inputs.

Do much more to make household fuel use cleaner and more convenient.

Consider improved stoves initiatives.

Work on sustainable agro-forestry for production of woodfuels.

Promote biogas.

Promote substitution of traditional solid fuels with liquefied petroleum gas.

Set phase-out target dates for coal and/or fossil fuels, or tighten criteria for fossil fuel projects.

Suggestions for coal include the following phase-out dates and conditions:

- (a) Stop lending for coal.
- (b) Phase out lending for coal in all middle-income countries by 2012 and in all countries by 2015.
- (c) Lend for coal only under a narrower set of conditions. Tighten the six coal screening criteria (siteresources.worldbank.org/INTENERGY2/Resources/CGN_20100331.pdf) and/or their application.
- (d) Offset carbon emissions from coal power plants by investing elsewhere in the power sector. Offset investments in fossil fuels by investing an equal amount in lending volume in renewable energy.

Suggestions for fossil fuels include the following:

- (a) Phase out lending for fossil fuels as soon as possible.
- (b) Stop lending for fossil fuels by 2012.
- (c) Stop lending for fossil fuels in all middle-income countries by 2015 and in all countries by 2020.
- (d) Do not finance fossil fuel projects unless CCS is built in from the beginning.

Include high-efficiency fossil-fuel-fired power plants and CCS in the WBG's mitigation agenda.

Consider advanced technologies for high-efficiency coal generation as a means of reducing carbon emissions. Rehabilitating existing plants to enhance efficiency is equally important. Both represent a cost-effective way of decreasing net emissions.

Support CCS as a critical element in climate mitigation.

Do not include any fossil fuel projects in the energy efficiency category or large hydropower projects under renewable energy.

The WBG has been including energy efficiency improvement in existing power plants in lowcarbon projects. These should be excluded.

Reservoirs in large hydropower stations emit significant amounts of greenhouse gases. As such, they should be excluded from low-carbon classification.

Support natural gas, large hydropower projects, and/or civilian nuclear power as a costeffective way of achieving the twin objectives.

Clearly state support for natural gas as an important bridging fuel in the transition to a low-carbon economy.

Be open to financing nuclear, and certainly developing internal capacity to advise governments. Technology neutrality and climate change considerations require this openness. Nuclear energy is ultra-low-carbon, commercially proven for baseload power generation, and can be deployed on a large scale globally. The WBG does not exclude any other commercially proven technology from its consideration, and there is no reason nuclear power should be the one exception.

Modify the seemingly sweeping division of developing countries into low- (or IDA) and middle-income (IBRD) countries.

There are pockets of very poor people in middle-income countries. Low-income countries can also benefit from technology leap-frogging.

There are many other factors that influence how best the WBG can be involved in the energy sector of a country.

Provide for an institutional structure and reform incentives to strengthen work on greening energy.

Set up a team, a unit, or a board to promote new technology and renewable energy—a special unit or directorate for renewable energy as suggested in the final report of the Extractive Industries Review, an international advisory group to promote energy efficiency and renewable energy, an energy technology advisory board, or a new department linking energy to climate change.

Increase the pool of expertise in renewable energy, energy efficiency, and decentralized approaches. Capture this change in staffing and in operations manuals and guidelines.

Conduct greenhouse gas accounting for all projects. Internalize environmental and social costs of projects in investment decisions.

Reward staff for outcomes, not for project size.

Create a dedicated fund for renewable energy and energy efficiency.

Create an enabling policy and market environment.

Help set up a stable and appropriate policy and regulatory framework to attract investment and develop a thriving energy sector.

Help private local energy service providers—who are the cornerstone of sustainable rural electrification—through capacity building, enabling policies, and effective financing schemes.

Involve not-for-profit, community-based organizations and cooperatives in delivering energy. Support carefully selected local financial institutions to enable loans and credit to local energy access-oriented initiatives.

Help develop infrastructure necessary to make projects viable (roads, ports, power). Support the local economy through community development (jobs, training, health).

Assess and help implement feed-in-tariffs, green bonus systems, and renewable energy targets as part of national renewable resource plans.

Provide guarantees or examine the feasibility of establishing a guarantee fund for investments in renewable energy.

Promote mechanisms to create a global price for carbon.

Fully embrace the recommendations of the World Commission on Dams and the Extractive Industries Review.

All large hydropower projects should take into account the recommendations of the World Commission on Dams, which issued its report exactly 10 years ago.

The final report of the Extractive Industries Review in 2003 recommended that the WBG stop lending for coal immediately and for oil in 2008.

Give careful consideration to energy subsidy reform.

Subsidies are all too often regressive. Phasing down or removing fossil fuel subsidies helps conserve energy, promote energy efficiency improvement, and make renewable energy more competitive. Subsidies can also deter the sector from becoming financially viable, constrain supply, and adversely affect the efforts to provide access to the poor. Avoid mobilizing additional financing for renewable energy or energy efficiency improvement where there are distorting subsidies. Assist in phasing out subsidies for fossil fuels.

Address the adverse effects of subsidy removal on the poor by establishing adequate social safety nets.

Promote subsidies for low-carbon energy sources and technologies.

Do not adopt a universal subsidy removal policy for fossil fuels. These subsidies have their own benefits in developing countries. The poor can hardly afford subsidized fossil fuels, financially the cheapest energy source today. If these subsidies are removed, the poor will be pushed back further into energy poverty, because renewable energy is more costly even when compared to unsubsidized fossil fuels. Subsidy removal, recommended by the World Bank, has hurt the poor in the past.

Be extremely selective about or stop lending for large-scale, centralized projects.

Large-scale centralized power projects, and especially those for energy export or projects supplying energy to export-oriented industries, benefit the poor little. Power from large-scale generation plants is sent mostly to non-residential customers, and, among the residential customers, mostly to middle- and upper-class households. All too often, these projects bypass the poor entirely. Unless direct benefits to the poor can be clearly demonstrated, do not get involved in large-scale projects, including regional power pools.

Large dams emit greenhouse emissions and, if anything, contribute to global warming. They harm the local environment and cause social dislocations. Large-scale hydropower also makes a country's energy supply more vulnerable to global warming, potentially threatening energy security.

Establish benefit-sharing mechanisms for local communities and the poor in large hydropower projects.

Include assessment of the vulnerability of the energy sector to climate change.

Support large-scale solar projects, but ensure that they are replicable.

Work on rehabilitating existing infrastructure.

Work on rehabilitating and modernizing existing hydropower stations. Lack of work in this area is lowering both power supply reliability and efficiency, and having adverse effects on the environment.

If the WBG must work on hydropower, concentrate on rehabilitating the existing infrastructure.

Existing infrastructure across the supply chain in need of repair is one of the serious problems facing many countries.

Pursue large-scale projects that can lower costs of energy supply or help diversify energy sources.

In low-income countries, encourage large-scale projects and centralized power generation aimed at lowering the cost per unit of energy.

Promote cross-border projects.

Promote integration of different energy sources, both in terms of location and type, to enable diversification.

Work on assisting the growth of small- and medium-size enterprises within and outside the energy sector.

Help develop local capacity and create jobs, especially in rural areas and poor communities.

Help local development and production of improved stoves.

Help strengthen continuing use of solar systems and improved stoves by providing local maintenance expertise.

Develop small- and medium-size enterprises using electricity and other forms of modern energy.

Consult widely, and involve those who lack voice.

Actively support planning and decision-making processes that seek the voices of the poor and the marginalized.

Continue the consultation process started in the preparation of the energy strategy and involve civil society in the implementation. The first phase of the global consultations was open and inclusive. This approach to consultation should continue.

Work to enable women to participate more in productive economic activities using energy and in decision-making processes in the sector.

Reconsider the WBG's position on not financing pre-commercial-stage technologies, or technologies for which there are only one or two suppliers.

Promoting innovative technologies is important in an era that calls for a transformation of the global energy sector, and this may require reconsideration of World Bank procedures and approaches.

Pre-commercial-stage clean energy technologies need support, and the WBG may be suitably positioned to provide that support.

If something is worth pursuing, particularly in energy efficiency improvement, rules about competitive bidding should not preclude WBG involvement.

Use traditional WBG financing instruments to promote climate change mitigation.

Donor financing should not count toward the achievement of low-carbon targets. Excluding donor finance will demonstrate where the WBG's core commitments lie.

4. Other comments

Teams drafting the energy strategy and the environment strategy should work closely together. The two strategies and the strategic framework for development and climate change should all be consistent.

Establish independent monitoring of the WBG's portfolio and implementation of the strategy.

In large bureaucracies, including the WBG, it is difficult to be flexible beyond the scope of what is written in a strategy. But the WBG needs to be nimble, so that the strategy does not become a barrier.