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On the  
Transfer of Real Resources to Developing Countries)



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**NEW WORLD, NEW WORLD BANK GROUP:  
(II) THE INTERNAL REFORM AGENDA**

Attached for the April 25, 2010, Development Committee Meeting is a background document entitled "New World, New World Bank Group: (II) The Internal Reform Agenda," prepared by the staff of the World Bank.

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# **NEW WORLD, NEW WORLD BANK GROUP: (II) THE INTERNAL REFORM AGENDA**

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**April 2010**



## Abbreviations and Acronyms

AAA	Analytical and Advisory Activities
AF	Additional Financing
CAO	Compliance Advisor Ombudsman (IFC)
CAS	Country Assistance Strategy
CDs	Country Directors
DC	Development Committee
DGF	Development Grant Facility
DOTS	Development Outcome Tracking System (IFC)
ESW	Economic and Sector Work
FIFs	Financial Intermediary Funds
GAC	Governance and Anti-Corruption Strategy
GPG	Global Public Goods
HR	Human Resources
IAD	Internal Auditing Department
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IL	Investment Lending
IMT	Information Management and Technology
INT	Integrity Vice-Presidency
IPN	Inspection Panel
IT	Information Technology
KM	Knowledge Management
MLT	Matrix Leadership Team
MICs	Middle-Income Countries
MIGA	Multilateral Investment Guarantee Agency
OKSP	Operations and Knowledge Systems Program
TA	Technical Assistance
TFs	Trust Funds
ToR	Terms of Reference
WBG	World Bank Group
WBI	World Bank Institute

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# **New World, New World Bank Group:**

## **(II) The Internal Reform Agenda**

### **I. Introduction**

1. At the Annual Meetings in Istanbul in October 2009, the Development Committee (DC) set clear expectations for World Bank Group (WBG) Management:

Continuing improvements in the corporate governance, accountability and operational effectiveness of the WBG are essential for confronting the development challenges of the 21st century. We welcomed progress to date and asked for a report for our next meeting on progress and proposals for advancing these reforms.<sup>1</sup>

2. This paper responds to the DC's request. It reports on progress in implementing key internal reforms initiated by Management to enhance the operational effectiveness and accountability of the World Bank Group. It also brings into focus the logic behind the internal reforms underway, and how they form a coherent and self-reinforcing package. The paper provides a general description of the main elements and timing of the internal reform agenda; it does not, however, go into depth about individual reforms as these are covered in separate policy and strategy papers. Work on internal governance reform led by the Board is also proceeding and aims at improving transparency and accountability of WBG governance to support these internal reforms and to enhance stewardship of the institution and strengthen overall WBG corporate governance.

3. The paper is structured as follows. Section II provides the background and context for the internal reforms underway. Section III lays out the key elements of the internal reform agenda: (i) reforms of the Bank's services and key financial and non-financial instruments; (ii) organizational changes to the matrix management structure and to enhance the delivery of client services through decentralization of staff, and (iii) support for implementation of the reforms, through upgrades to the WBG's Information Technology (IT) platform, changes to its Human Resources (HR) policies and practices and reforms to budget processes and allocations to better align with our priorities. Section IV presents overarching initiatives to increase transparency, accountability and the delivery of results on the ground. Section V concludes with the expected results of the reforms and indicators of success.

### **II. Background**

4. The global landscape has been transformed. A global economy riding a wave of prosperity and progress in the fight against poverty was abruptly halted by the events of the past two years that stalled progress and threatens to push millions back into poverty. The global financial crisis made clear a trend that has been emerging for some time—resolving crises and meeting emerging development challenges in a world of increasingly diversifying economic power rests on addressing 'global', as well as country-specific, issues. In turn, this requires

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<sup>1</sup> See DEVELOPMENT COMMITTEE COMMUNIQUÉ, Istanbul, Turkey, October 5, 2009, para. 8.



robust global multilateral institutions that can legitimately convene all powers, old and new, to reach effective development solutions that solve global challenges.

5. As a premier development institution with global membership, the World Bank Group (WBG) is transforming itself through a refocusing and refining of its priorities and a modernization of its governance structure and operational policies in order to play a key role in addressing emerging global challenges and enhancing its efforts to overcome poverty. A paper on the WBG's post-crisis directions<sup>2</sup> outlines the salient features of the changing development landscape and the WBG comparative advantages, and identifies the five strategic priority areas that will shape the WBG's focus in the coming years. The comparative advantage of the WBG rests on its global membership and engagement in all developing regions, its endowment of capital and reserves, its knowledge and expertise gained globally but customized locally, and its wide range of products and services. Along with exploiting and strengthening its comparative advantages, the five priorities—targeting the poor and vulnerable, creating opportunities for growth, providing cooperative models, strengthening governance, and preparing for crises—form the backdrop and provide directions to the WBG's ongoing reform efforts.

6. The WBG response to the food, fuel, and financial crises of the past two years provides a snapshot of the still-to-be tapped potential of the institution to address the challenges and opportunities of the post-crisis world. We have seen an unprecedented and coordinated drive by all parts of the WBG to provide global leadership; coordinate, leverage and deliver substantial financial resources; and mobilize global knowledge and expertise to serve the broadest range of member countries. The WBG was able to do this rapidly and flexibly through innovative approaches building upon its worldwide reach and local presence, in close collaboration with the IMF, UN, RDBs and bilateral partners. Most importantly, it was able to do this with a clear focus on targeting the poorest and most vulnerable. This experience underscored the broad range of reforms needed to unleash and build upon the WBG's strengths and comparative advantages and to deliver services tailored to countries' priorities. The reform agenda emerges from a growing consensus of staff, management, member states and civil society and is set forth in an integrated framework recognizing their interdependence. The overall vision is ambitious, while recognizing the need to carefully sequence and manage such change to organizational culture in a manner that brings the WBG together and adapts to a dynamic world.

### III. Internal Reform Agenda

7. The vision of the internal reform agenda is a WBG that delivers a customized package of top quality global knowledge and financial services in real time to a growing range of client segments – poor countries, fragile and small states, MICs, and the private sector. Over the last 18 months, Management has launched a series of mutually reinforcing initiatives that have the potential to transform the institution and realize our vision. The gist of this reform agenda is the recognition that to respond better to both long-term development challenges and the changes wrought by the global economic crisis, ***the WBG must become more efficient, effective and accountable***. The internal reform agenda encompasses IBRD/IDA and the IFC, as well as ongoing reforms at MIGA. While the specifics of the reforms differ among the institutions, the

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<sup>2</sup> See, *New World, New World Bank Group: Post-Crisis Directions*, February 2, 2010 (SecM2010-0034).

drivers of reform—the need to get closer to the client, to enhance our financial services and to better disseminate knowledge and expertise—are the same.

8. The internal reform agenda has three inter-linked elements:
  - a. modernizing and enhancing the effectiveness of the Bank’s financial and non-financial instruments to tailor them to client needs, improve the speed of delivery, and demonstrate results on the ground;
  - b. facilitating responsive and efficient delivery of client services through changes in the way the Bank is organized, including improvements to the matrix and an enhanced field presence, coupled with greater devolution of responsibility and accountability; and
  - c. supporting *more effective* services and *better delivery* of services through changes in policies, infrastructure, and the incentives system.<sup>3</sup>

9. ***Inter-linkages.*** When taken as a whole, the reforms are closely interlinked and mutually reinforcing (see Figure 1). The ultimate test of the reforms will be the Bank’s ability to deliver improved development effectiveness to our clients, which will depend in the first place on the on-going reforms to knowledge and financial services. This is where the client will feel immediate impact from improvements in the Bank’s instruments and products. The success of these initiatives rests on a second tier of reforms— changes to the Bank’s service delivery to “unclog” processes, build synergies across networks and regions, and capitalize on the Bank’s comparative advantages through adjustments to improve the functioning of the Bank’s matrix management structure and through more effective decentralization of staff and decision-making. These organizational changes are essential to harness the full benefit of the modernization of services for our clients. Finally, enabling reforms and enhancements to the Bank’s IT platform and HR policies will directly support both service delivery and the modernization of our services.

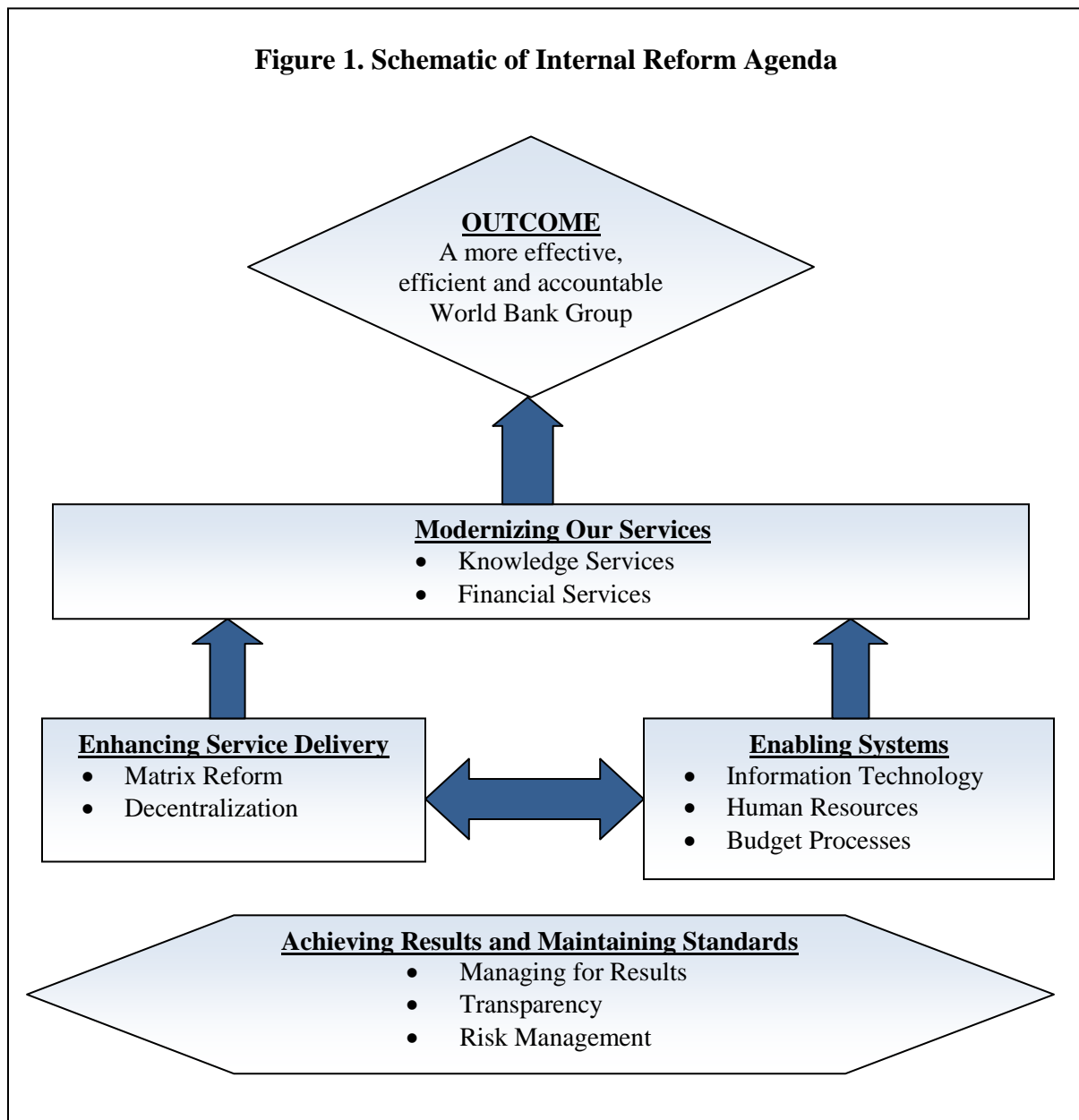
10. There are clear linkages among the reforms. For example, the approach to investment lending reform implies greater decentralization of decision-making for many low-risk operations, and enhanced implementation support from field offices, requiring increased decentralization of staff. This decentralization is, however, likely to be less than effective if it is not accompanied by knowledge management reform to keep decentralized staff linked to global developments in their sector, and improvements in management of the matrix to increase linkages between Regional and Network staff. The causality runs both ways: decentralization supports IL reform by drawing Bank staff closer to the client, allowing for greater responsiveness and customization, and providing Networks with access to operations-level knowledge. The enabling reforms in IT, HR and budget processes are also central. Without IT reforms to increase connectivity and knowledge capture and retrieval, we will be unable to achieve

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<sup>3</sup> The incentives system includes both financial and non-financial incentives taking into account organizational structure, resource allocation processes, measures of success, follow-through on rewards and consequences, management signals and other institutional mechanisms which influence staff behaviors and drive individual and organizational performance.

improvements in knowledge to support our operational engagement or realize the full benefits of a decentralized Bank. Similarly, HR reforms are needed to decentralize efficiently, to support technical excellence, and to promote a knowledge and results-based culture.

11. Accompanying the internal reforms are measures designed to ensure that the Bank achieves its development effectiveness objectives and that the Bank's fiduciary standards and accountability mechanisms are not inadvertently compromised by the changes underway. The focus is on managing for development results, transparency, and risk management. Moreover, to monitor and advise on progress in implementing internal reforms, we will put in place an institutional structure, a set of reform targets and indicators, and communications outreach.



12. **Timing.** While all of the reforms are underway, their timeframes vary. The timing of each reform is being sequenced to be mutually supportive in the context of the wider reform agenda. While some changes have short-term completion horizons and address pressing near-term problems, others are long-term, reflecting the need for a deeper understanding of the costs and benefits of the significant organizational change they would entail. Examples of the near-term changes include the supporting reforms in HR and IT, which will smooth the modernization of knowledge and financial services by providing the connectivity and mobility required for success. Similarly, the matrix will be refreshed to

improve connectivity and strengthen the link between global and country platforms, as a foundation for further decentralization. Other reforms carry elements of the short and longer term. For instance, while key aspects of the Bank Group are already decentralizing, more fundamental efforts to decentralize are longer-term, reflecting their far-reaching organizational implications and resource intensive nature. In turn, longer term decentralization reforms may require further refinement to the matrix, as well as to employment policies and recruitment and compensation. The modernization of services, meanwhile, has a medium-term timeframe, as the Knowledge Strategy is implemented and investment lending reform is rolled out.

13. **IFC** has also embarked on major reform and management realignment initiatives, “IFC 2013”. As illustrated in [Box 1](#), IFC 2013 seeks to increase the Corporation’s effectiveness and efficiency by completing the decentralization process and enhancing accountability processes, human resources policies and knowledge management.

### A. Modernizing WBG Services

14. The Bank’s strength lies in the blend of financial support and knowledge transfer it is able to provide. Its business model and products continue to evolve. Clients are seeking—and the Bank is developing—new and innovative knowledge and lending products that provide quicker, customized solutions to accommodate the needs of different client segments. To an extent operational practice is also continually evolving. In response to emerging borrower needs and changing market conditions, even prior to the start of the financial crisis, Bank management

#### Box 1. IFC 2013

IFC 2013 is the next phase in IFC’s continuing efforts to realize its full potential as a private sector focused development institution. The primary objectives of IFC 2013 are to enhance the development impact for the Corporation by setting clear development goals, strengthening its financial sustainability by increasing accountability at all levels in this area, and tackling internal barriers that prevent IFC from delivering to its full potential.

The IFC 2013 initiative builds on the work of past improvement initiatives as well as a diagnostic exercise that highlighted areas of greatest opportunity. In particular, the diagnostic identified the following four organizational areas for change and improvement:

- simplifying processes;
- clarifying accountabilities and decision rights;
- developing an IFC knowledge marketplace and further defining the role of the global center, i.e., the “Global” in the Global/Local initiative that paved the way for further IFC’s decentralization efforts;
- strengthening talent management and leadership development.

Through IFC 2013, IFC’s leadership has committed to pursuing these opportunities and has established working groups to develop a road map and outline the cost implications for the FY11-13 period.

undertook several initiatives to enhance client responsiveness, update and modernize our operational policies, increase the efficiency and effectiveness of existing instruments, improve the competitiveness of its financial services, and utilize the trust funds under its stewardship more efficiently and strategically. This positioned the institution well to respond to requests for assistance from clients impacted by the crisis. This section describes the key steps taken to improve financial and knowledge services both prior to and in the wake of the crisis.

## **Financial Services**

15. Management has embarked on a series of initiatives to modernize its instruments, streamline internal procedures, expand the use of country systems, and develop new instruments, all with the aim of increasing impact and lowering borrower transaction costs. The first step in the modernization of our instruments was a new Bank policy on Development Policy Operations (DPOs) which significantly updated the instrument with a stronger focus on client ownership. Second, the Bank's approach to emergency lending was totally overhauled through the implementation of OP/BP 8.0. Third, a new exposure management framework was introduced for IBRD to allow a more efficient and flexible use of capital across borrowers. Fourth, the Bank has taken steps to expand the range of financial products and services it offers, including asset management services and market-based financing instruments for catastrophic risk. Finally, commitments under IDA15 have led to closer collaboration among the different parts of the WBG— as exemplified by the strengthening of ties between IFC and IDA, including the establishment of the IDA-IFC Secretariat.

16. ***Review of financial instruments.*** The evolution of the Bank's operations, the need to work jointly with other regional banks and donors in the field, and the changing nature of Bank assistance during the financial crisis, have all illustrated the need to look anew at the Bank's operational instruments. Management has conducted a review of existing Bank financial instruments. This review examined whether the Bank's current menu of instruments (both loans and guarantees) is adequate to allow the Bank to respond—within the confines of its mandate and comparative advantage—to the development financing needs of its clients, or whether recent changes in clients' needs and the evolving global context have opened gaps in the menu. Invigorating the Bank's instrument mix will enable us to align better with government programs and priorities, to be a better partner for other donors and multilaterals in the field, and to be faster and more flexible. Moreover, a modern set of instruments will facilitate working with clients to manage risk and prepare for future crises.

17. ***Investment Lending.*** Building on the momentum of earlier reforms, Management has turned its attention to a cornerstone of the Bank's client engagement: Investment Lending (IL), which accounts for two thirds of combined IBRD and IDA annual commitments and over 90 percent of their active lending portfolio. Investment lending serves as a vehicle for global knowledge, resource transfer and technical assistance, and supports institution-building. However, the Bank's traditional IL model was designed many years ago when the Bank's lending program was focused on preparation and design of ring-fenced, green field infrastructure projects, and has not kept up with clients' needs and the evolution of our product lending. Teams have been adapting to clients' demands within an ill-suited investment lending policy framework. Investment lending has become encumbered by a web of internal, rule-based

processes and requirements, with the same rules and, in many instances, budgets applying to all operations, regardless of risk, size, or sector. Moreover, the supervision model often falls short in bringing the right expertise, timely attention to issues, and the more proactive portfolio management needed to respond to the development challenges of WBG projects and the often uncertain environment in which they are implemented. Some borrowers—especially middle-income countries (MICs) that have access to alternative sources of financing—have indicated that the nonfinancial costs and rigidities associated with IL can outweigh the benefits associated with Bank involvement. In fragile states, there is a need to adopt procedures to ensure a faster response.

18. In line with this diagnosis, the aim of IL reform is to improve the efficiency and effectiveness of investment lending, give greater attention to development effectiveness and implementation support, enhance risk management, and strengthen accountability. A first step was the introduction of additional financing (AF) in 2005. This has allowed the Bank to scale-up well-performing projects quickly, on average in under six months, and AF now accounts for a significant portion of the Bank's investment lending. Building on the experience with AF, reform of IL more broadly is underway. An important innovation is the introduction of a risk-based IL model that differentiates projects and their processing requirements based on the risks they present, permitting simpler procedures in low risk settings and enhanced supervision and implementation support for more complex projects. This risk-based approach will also facilitate implementation of the CAS pilot which allows for conditional approval of projects by the Board. The risk-based model and the pilot will permit greater delegation of authority to the field for low risk projects, thereby enhancing the impact of decentralization.

19. Another important component of IL reform aims to change the philosophy of the Bank's approach to post-approval project activity, with a shift from an emphasis on supervision and compliance to one of implementation support, assisting clients to achieve the desired results on the ground and support improved country systems in line with the Accra Agenda for Action. This has been accompanied by changes which facilitate project restructuring, making adaptation to changing circumstances easier and faster and helping countries use scarce IBRD/IDA resources more effectively.<sup>4</sup> A new results-based option designed to meet the evolving needs of supporting service delivery programs is also under development. The final step in IL reform will be the revision of the policy framework to integrate the existing web of some thirty odd policies (the OP/BPs) into a single coherent policy statement on IL, as well as supporting changes in the IL enabling environment, such as the IT portal, budget process, and management and Board attention to implementation issues. Underlying these reforms is the need to assess, develop, support, and ultimately apply client country systems to enhance development effectiveness. Pilot efforts in safeguards and fiduciary systems are underway, but will require careful review and evaluation.

20. ***IFC Investment Process Redesign.*** IFC Management has also undertaken several initiatives to simplify and refocus IFC investment processes. Building on changes implemented within previous improvement initiatives, a series of "Quick Wins" were already introduced by

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<sup>4</sup> These funds can either supplement ongoing well-performing operations or be used for new activities that are consistent with the CAS – instead of returning to the general IDA pool for redistribution, as was previously the case.

the IFC 2013 Investment Process Review Committee that are part of continuing efforts to improve IFC's system of check and balances. They include clarifying accountabilities for investment managers and credit, expanding new business delegations, consolidating and eliminating steps in the new business project cycle, reducing documentation requirements in the project cycle, and introducing risk-based delegation for portfolio and a new approach to materiality. The "Quick Wins" are expected to be implemented between January and June of 2010.

21. ***MIGA reforms.*** MIGA, for its part, has updated its Operational Regulations and is in the process of modernizing its Convention. MIGA management has undertaken a number of steps in recent years to address shortcomings that fall within its purview. These include implementing business process changes aimed at enhancing efficiency and reducing procedural impediments for private investors and tenders. In addition, in FY09 management and the Board together took significant steps to extend MIGA's reach and effectiveness through a number of revisions to the Operational Regulations in order to meet changing circumstances and market conditions. The key changes included the addition of a new cover—non-honoring of sovereign financial obligations—as well as enhancements to MIGA's existing breach of contract and war and civil disturbances coverage. The new cover is particularly well suited for public-private partnerships but may be used for other investment structures, particularly in complex infrastructure projects, in its poorest member countries.

22. ***Trust Funds.*** Effective trust fund and partnership management is also crucial to providing cooperative models and support to the GPG agenda. The portfolio of Bank-managed trust funds and financial intermediary funds (FIFs) has expanded significantly in recent years. In line with the Trust Fund Management Framework (TFMF), approved by the Board in October 2007, progress is being made in aligning Recipient Executed Trust Funds (RETFs) with the Bank's country assistance strategies (CASs); monitoring and reporting on trust funds; as well as in implementing risk mitigation and cost-recovery measures. In addition, a senior management review process is in place with regard to Bank's engagement in large FIFs such the Advanced Market Commitment (AMC) and the Adaptation Fund (AF), approved by the Board in FY09, and the recently launched Global Agriculture and Food Security Program (GAFSP). However, further challenges remain. Trust fund processes will need to align with the new processes being developed for Investment Lending and AAA activities that are also part of the internal reform agenda. There is a need to address the increased fragmentation of the trust fund portfolio through consolidation and standardization measures, and to better integrate Bank-executed trust funds (and other external resources) with Bank budget; including understanding their role in funding core Bank products. Finally, progress has been made in cost recovery, but more needs to be done to ensure that IDA and IBRD are not cross-subsidizing trust funds. An Update of the TFMF, to be presented to the Board in Q4 of FY10, will take stock of progress to date and outline challenges going forward. In addition, Management is looking into options to increase the innovative focus of the Development Grant Facility (DGF); a new strategy is also planned in FY10.

### **Knowledge Services**

23. Global development knowledge is key to our future relevance and effectiveness. The Bank's distinctive knowledge comes from our combination of presence and experience on the

ground, and world class analytics and leadership on development thinking, as well as building partnerships with others in the development field and promoting South-South knowledge exchanges. The knowledge agenda is, therefore, an integral part of the overall reform effort and essential to supporting all five WBG priorities. Strong knowledge flows and staff mobility are a prerequisite for decentralization. Advisory and Analytical Activities (AAA) are closely related, indeed intrinsic, to all our other services.

24. The financial crisis has reinforced the urgency of addressing global issues, sharing policy experiences across countries, and anticipating and remaining ready for future crises, and we need to adapt our knowledge base and instruments to a rapidly changing global environment. Developing common positions, coordinating development actors, and promoting collective actions will become increasingly important to achieve progress towards shared development goals. Our clients are becoming more connected and increasingly able to draw on a wide array of information sources and expertise. They want a Bank that is not only a source for the best development knowledge, but also a broker of the best knowledge and innovation across the world; a Bank that is more responsive to their needs and more flexible in providing the advice they seek.

25. In response to this changing environment, a Knowledge Strategy was finalized and discussed at the Board. The strategy focuses on three priorities—strengthening our technical practices, rethinking our knowledge products, and opening up the Bank to external views—and two platforms to manage knowledge more proactively—the knowledge architecture and the knowledge governance framework:

- ***Strengthening global technical practices.*** Sharing knowledge and learning from country client experiences is the trademark of knowledge-based institutions. Attracting the best technical expertise and keeping the knowledge flowing throughout the institution is a key prerequisite for the Bank to keep its global edge. Moreover, enhancing our technical capacity in alignment with our strategic priorities will help ensure that the institution is fit for purpose. Our priorities are to strengthen the management of our global practices, enhance mobility of our technical expertise, develop a strong technical stream by expanding the number of technical experts, and manage knowledge as a corporate asset.
- ***Getting the most of our explicit knowledge portfolio.*** Bank knowledge products are well regarded for their technical quality, but there is room for improvement and reallocation of knowledge expenditures. We need to improve the impact of our products, improve our focus on our strategic priorities and increase synergies across the variety of knowledge we produce. Management is currently looking at the incentives and management structures to better manage our knowledge portfolio and improve our impact, and also launching a major review of country-based AAA (see [Box 2](#)). We will also undertake a quality review of the Bank’s knowledge portfolio and introduce an annual knowledge report.



- ***Opening up the Bank to external views and development networks.***

To remain the leader of development thinking, we need to transform ourselves as a platform for debate and as a broker of knowledge. Reforms underway include: WBI renewal as a key platform for South-South exchanges, including the establishment of an external knowledge platform and a global brokering mechanism for South-South knowledge exchange; modernization of the external web and our information

architecture, including

our search engine, collaboration platforms and a new Bank-wide social networking platform; and review of our portfolio of global partnerships and programs. The piloting of strategic knowledge platforms on key development issues, the strengthening of collaboration with think tanks as part of our country level and professional networks engagements, and the establishment of a high level Bank fellows program are also planned.

- ***Strengthening our core knowledge architecture.*** To succeed as a knowledge organization, we need knowledge that is easily accessible, a strong collaboration culture, incentives and processes that value knowledge sharing, and a robust information architecture. A crucial element of this reform is how to capture and share knowledge embedded in operations, and from our large array of technical assistance and consulting assignments.
- ***Creating overall governance arrangements to manage our knowledge assets as an integrated package.*** Management of knowledge services needs to be decentralized to be responsive to our clients. There is also a need for strong governance arrangements, with management of knowledge as an integrated portfolio to improve overall efficiency and direct expenditures towards our strategic priorities and high

#### **Box 2. AAA Review**

An important component of the Bank's Knowledge Strategy is the Bank's AAA, the source of much policy advice and technical assistance on implementation. A 2008 IEG evaluation of AAA found that the overall quality of ESW and TA is high; TA, in particular, is highly appreciated by clients. While the technical quality of ESW and TA influence their effectiveness, sustained follow-up after the completion of the tasks, rather than one-off "dissemination," is key to effectiveness, as is close collaboration with clients. An important finding was that the presence of relevant ESW was statistically associated with better loan design. Other reviews have noted the long delays in preparing ESW, the fact that findings are often not shared or widely disseminated within the Bank, and poor document retention are all factors limiting the impact of the work.

Management is addressing these specific issues in the ongoing reform of ESW and TA, complemented by efforts to strengthen the results focus of AAA. In moving from a focus on outputs (e.g., numbers of reports) to a focus on impact, increased attention is being devoted to ensuring that AAA products are better aligned, leveraged and delivered to meet country priorities. Efforts are also being made to more clearly align AAA to the Bank's sectoral and regional priorities. This will help shape the development agenda more broadly. In addition, joint analytic work with other donors is being encouraged so that countries receive coherent support from development partners with minimal overlaps. Other elements of AAA reform include: better monitoring of progress toward objectives and assessment of results, enhanced management oversight, simplified systems and processes, and integration of trust-funded products into the body of Bank AAA.

value products. Management will establish a Knowledge Council chaired by a Managing Director and composed of a limited number of Senior Managers to provide oversight and direction on the knowledge portfolio. And we will put in place an accountability framework for the knowledge portfolio.

26. *IFC Knowledge Services*. Global knowledge is also a key comparative advantage of IFC and its core value proposition to clients. While decentralization has enabled a much closer integration of the investment and advisory services offering, and one face to the client, it has created challenges for knowledge management. Access to global industry knowledge and transactional know-how is an urgent priority for staff, more than half of whom are now in the field – closer to clients. Many staff are new to the institution and as the traditional apprenticeship model of knowledge transfer becomes more difficult to implement, IFC is seeking ways to enhance organizational effectiveness and ensure strong feedback loops for knowledge. Under IFC 2013, knowledge management (KM) has been identified as a critical driver to maximize the efficiency of business processes, to establish global thought leadership for greater development impact and to enhance staff satisfaction. A core principle of IFC 2013 is an increased focus on specialization, which further underscores the importance of creation, capture, transfer and application of IFC's valuable knowledge assets. As the Operations Center model moves, it is recognized that a major focus will be required to preserve global knowledge, to create strong feedback loops and to leverage local and regional knowledge, so that IFC can provide clients with the best expertise available.

27. Recognizing that current KM capabilities at IFC are variable with some pockets of good practice, a high-level Knowledge Steering Committee, led by the Advisory Services VP, and including an Investment Operations VP as well as the FPD Vice President, has been set up to oversee the formulation of a clear strategic direction for knowledge, creation of an enabling governance structure and IT platforms, and introduction of processes and incentives to promote a sustainable knowledge culture. In addition, a Global Head of Knowledge was appointed in December 2009 to develop a strategy, and in coordination with the business units, to help drive the execution of the knowledge strategy, so as to strengthen development impact and align knowledge delivery with IFC's Development Goals. A Knowledge Working Group is devising a short- to medium-term implementation plan, based on a prioritized portfolio of initiatives. These may include a knowledge audit, collaborative platforms, an expertise locator and business process alignment.

28. IFC's knowledge strategy development process has benefited from participation in the World Bank Knowledge strategy development process, as a member of the Knowledge Steering Committee. There are important points of overlap (e.g., on global Practice Groups) and the need for a common approach (e.g., on social collaboration platforms). In other areas, IFC's approach will reflect the differences in the two institutions' decentralization efforts, their organizational structures as well as differing client bases and needs.

29. MIGA has launched a research agenda in collaboration with the Berne Union of public political risk insurance providers with a view to providing potential investors in low income countries with useful information relating to political risk and its mitigation.

## **B. Enhancing Service Delivery**

30. The development business is evolving rapidly: client needs are becoming more diverse and planning horizons are shortening, particularly for MIC clients. The aid effectiveness agenda has underlined the importance of close on-the-ground collaboration with clients and other donors. To adapt to these fast-changing realities, the Bank's existing service delivery model is being reformed. Organizationally, there are two challenges. First, the matrix, which was introduced more than a decade ago, needs to be revitalized to realize the technical excellence and connectivity it was designed to foster. Second, while the Bank has been decentralizing rapidly over the past decade, without an effective center and global connectivity, it risks losing its key comparative advantage. The matrix and decentralization reforms have been carefully sequenced. The matrix reforms will proceed first, as these reforms are designed to facilitate connectivity, clarify accountability, and build the corporate culture that is necessary for a more decentralized WBG to function effectively. In each area there are short term reforms to address pressing issues, while longer term, wide-ranging reforms are analyzed, piloted, and finalized.

### **Matrix Management**

31. The matrix has the potential to exploit the unique strengths of the WBG, allowing clients to profit from its global purview. An analysis of the current matrix has found some important issues with the current model, including low staff mobility, diffused accountability, limited knowledge flow and a disconnect both within and between network anchors and regional vice-presidencies and the need to strengthen management of technical talent. This reveals itself in the sometimes weak links between the Global Public Goods (GPG) agenda and country platforms, weak talent management, and a clear tendency to regional and network anchor "silos". After assessing more fundamental changes to the existing matrix organization, the consensus was to improve the workings of the present configuration. The emphasis is on stronger collective leadership 'from the top down,' with Network and Regional VPs working together as a Matrix Leadership Team (MLT) to develop a concrete action plan and lead implementation. A series of reforms is being developed: (i) transforming existing sector boards to Practice management teams with enhanced responsibilities and accountable to MLT; (ii) specifying more clearly the ToRs of Network Councils; (iii) taking accountability for a more corporate approach to key staffing decisions; (iv) piloting several Global Technical Practices in key areas and an increase in the number of Global Expert Teams (GETs) to increase mobility of top talent; (v) improving corporate governance of GPGs to promote integration at the country and regional levels; (vi) rebalancing and clarifying accountabilities within regional operations first (including an organizational plan to rationalize sector managers' span of control) and then, within the networks; and, (vii) finally, the introduction of a system to induce more cross support from network anchors and across regions, beginning with targeted increases in cross support by high end staff. The matrix organization and these reforms must be seen as a dynamic process which will need to adapt continuously to lessons learned, changing circumstances and the impact of other reforms, including decentralization.

32. **IFC Matrix.** IFC has seen benefits from its matrix structure with its decentralization. Large numbers of industry department staff are now located in the field that are able to respond to client needs immediately. The Corporation is now evaluating how to sustain this effective matrix system in the context of increasing decentralization, i.e., while preserving a lean, cost

efficient organization, with clarity on accountability. The institutional changes generated through the IFC 2013 initiative will therefore seek to sustain a matrix system in which decision rights are clear, and the generation and flow of global knowledge is enhanced. As internal decision-making authorities and execution capabilities shift to the field, IFC will institute processes that allow for industry, sector and product expertise to enhance regional decision-making and to realize the full value of IFC's proposition to the client.

### **Decentralization (Global Bank)**

33. With a presence in more than 120 countries, including the bulk of its country management and about 5,000 staff outside Washington, the WBG has made progress on decentralization, but the HQ-centric business model faces serious limitations. The current model constrains the Bank's ability to deliver the post-crisis work program. Not only does the WBG need to develop the ability to adjust rapidly and manage more adroitly and effectively in an uncertain global environment characterized by the financial crisis, the changing global economy, the transformation in information technology, and the challenges of the global public goods agenda, but it also needs to overcome the inherent limits of today's model. The current model does not put global knowledge at the finger tips of the majority of our clients, leaves many FCS clients underserved, fragments scarce skills and is also becoming prohibitively expensive. The overarching objective, therefore, is to decentralize staff and decision-making to ensure that the WBG becomes more agile and broadens its global reach through a more flexible business model that will bring its resources—financing, knowledge and people—more readily to its clients when and where needed. This will facilitate more effective, on-the-ground partnerships with regional development banks and bilateral donors, and it will also facilitate connecting to the external sources of global development knowledge.

34. An increasingly decentralized global Bank will require a strong corporate center to ensure integration and common standards, to provide the “glue” to remain tightly connected, and to facilitate the transfer of global knowledge. Ongoing reforms to the operation of the matrix will provide the foundation of strong governance and policy frameworks that reinforce the global nature of the institution, including clear delegation of authority, managerial accountability, streamlined decision-making processes, and operational policies and procedures that enable fast but consistent responses. The evolving decentralization strategy has both short term and long term components. In the short term, the Bank is focusing on complementing its country presence in low income and fragile states by establishing at least one sub-regional hub in Africa to serve Fragile States, increasing the number of CDs in Africa, moving more task management to country offices; and moving some sector managers closer to decentralized staff.

35. To prepare for the medium term, the Bank is examining alternative decentralization approaches that would allow enough flexibility to effectively respond to the needs of the various clients, while better integrating the global and country platforms, reducing the silos and facilitating knowledge flows. In any future approach, the Country Offices will continue to form the foundation of service delivery to country clients but they will be enhanced by placing a critical mass of technical skills, with appropriate management oversight and support, in close proximity. These stronger decentralized skills bases would house staff representing cutting-edge technical skills from key sectors with strong (geographical) familiarity with country clients, and

knowledge/global functions would be integrated as called for by business needs. The initial feasibility analysis of three “stylized” options was concluded and discussed informally by the Board.

36. The next steps include further analysis on a new approach based on Regional and Network decentralization plans, including preliminary staff planning and full costing. A more substantive decentralization approach would also require a transformation of the functional and organizational features of the corporate center, analysis of which is in the short-term work program. Detailed work and analysis will also be required to establish a taxonomy for Country Offices by type of client and services to be provided, and definition of functions and organizational features of larger offices/sub-regional hubs. The next update to the Board, in the fall of 2010, will report on the progress of the above work program, including on IFC’s decentralization status and plans. At that time, the contours of the new decentralization approach will emerge reflecting real business needs. Subsequently, Board guidance is expected to allow for the preparation of an initial implementation plan in the second half of FY11. As noted, successful implementation will require substantive progress in parallel internal reforms that together engender a strong corporate culture, more corporate management, enhanced staff mobility, knowledge sharing, and Bank-wide core learning program, resulting in maintaining and enhancing the Bank’s strong global brand.

### **Box 3. IFC Decentralization**

Over the past several years, IFC has pursued its goal of increasing development impact by implementing a focused strategy to get closer to clients, especially in IDA countries and conflict-affected regions, where the needs are greatest and where projects tend to be more difficult, smaller and riskier (financially and reputationally), requiring IFC’s local presence. This strategy has been in response to shifting business and client needs. The rapid growth in developing economies, and the emergence of local investors and entrepreneurs, afforded IFC with new opportunities. Clients also expressed concern with IFC’s responsiveness and timeliness.

Given its aspiration to reach the frontier and faced with rapid growth in its investment volumes, IFC made a purposeful choice to grow in the field. Through a phased and piloted approach, IFC has been transforming from a headquarters-centric organization to a decentralized model, with significant increases in staffing and decision making in the field. Field-based staff now comprise 54% of IFC’s total staff, up from 36% in FY02. Management has also been decentralized, with a Regional Vice President now based in the field, in addition to seven regional directors and one industry director. Decentralization has also helped to increase IFC’s footprint and development reach. IFC has expanded its footprint in IDA, with office presence in 46 out of 78 IDA countries and 45% of its commitments in IDA countries in FY08.

However more can be achieved in terms of cycle time and speed of delivery by delegating further decision making and execution capacity to staff in the same time zones as clients, thus improving delivery capacity and efficiency.

The full potential from IFC’s decentralization will be captured by developing Regional Operational Centers, an approach that is being piloted in Istanbul to serve Europe, Central Asia, the Middle East and North Africa. The new operating centers will be launched by the end of the 2010 calendar year. Client facing staff will remain close to clients in country offices while delivery capacity will coalesce in the relevant Operational Center for enhanced efficiency.

IFC’s comparative advantages as a global institution will be maintained by strengthening its global linkages. As internal decision-making authorities and execution capabilities shift to the field, IFC will institute processes that allow for industry, sector and product expertise to enhance regional decision-making. This also implies early integration of advisory offerings wherever possible, and a preference for a comprehensive assistance package over a single product approach.

37. Over the past several years, IFC has implemented a decentralization strategy to move closer to clients, especially in IDA countries and conflict-affected regions, where the needs are greatest. Details on IFC's decentralization are provided in Box 3. MIGA also plans to accelerate decentralization outside Washington, and is working closely with IFC on co-located offices and staff, starting with a regional hub in Asia.

### **C. Key Supporting Reforms**

38. Achieving development results from reforms of services and delivery mechanisms requires the WBG to nurture and build upon its pool of development expertise, its global network of country platforms, its broad convening power, and its highly motivated and entrepreneurial workforce. Cultivated through long-standing relationships with partners, these assets are most effective when deployed in combination. Most of the Bank's policies, processes, systems, and internal structures (operational, administrative, organizational, HR, budget, IT, etc.) were designed years ago to support a more homogeneous client base and an HQ-centric way of doing business, and many require change. So, certainly, does the organizational culture, to support a mindset that embraces the need for continuous adaptation to changing needs. Therefore, the WBG has embarked upon a wide-ranging set of supporting reforms in HR, IT and the budgeting process. The reforms attempt to modernize systems, synchronize them with ongoing service and delivery reforms, promote a staff culture that embraces institutional reform, and ensure that our budget allocations are informed by the results that we are achieving on the ground and aligned with our priorities.

#### **Human Resources**

39. The delivery of top quality global knowledge and financial services in real time to every client requires a flexible, mobile, and highly talented workforce. Attracting, retaining, and appropriately deploying the right talent is therefore crucial to the Bank's success. For the Bank, the right talent is defined as professional staff: who have the skills and experiences required for the evolving business of the institution and the ability to innovate for a changing world; who are motivated by the mission of the Bank; whose diversity of nationality, demographics, background and experience reflect the clients that the Bank serves and its member countries; and an increasingly significant proportion of whom are interested in a globally mobile career in development, and willing to relocate wherever needed to serve clients worldwide in support of the Bank's mission. A key focus of our HR reforms is and will continue to be promoting diversity among staff, especially senior management, to ensure a WBG that better reflects our diverse stakeholders and to enhance the voice of all member countries.

40. Supporting the Bank's efforts to improve corporate governance, accountability, and operational effectiveness, the HR reforms promote two themes. First, they serve to strengthen the fundamentals enabling a more agile, efficient and effective bank. Second, they promote a more corporate approach to people management in the Bank, recognizing the importance of managers' responsibilities to the whole institution as well as to their immediate units and teams.

41. One set of HR reforms focuses on improving the attraction and retention of talent globally. This will be achieved through the development of a global HR framework that

addresses current compensation and employment policy issues while supporting greater decentralization. The Quadrennial Benefits Survey, to be completed in FY10, will provide one set of benchmarks for international competitiveness, as part of ongoing work to ensure that the Bank's total compensation package program is positioned competitively. Additionally, work is ongoing to develop global compensation design options in FY11. Increased use of clustered recruitment will be made to attract a diverse and inclusive workforce, with the completion of clustered recruitment in three sectors by end FY2010 and an expansion of the use of clustered recruitment planned by the end of calendar year 2010. An annual corporate review of managerial bench strength is being instituted and a new learning program for managers is being finalized. Recruitment efficiency improvements will be gained through the design of a standardized and simplified recruitment process, enabling faster decisions to fill critical vacancies. Beyond recruitment, a process is in place to systematically review other HR policies and processes to respond to business needs with increased efficiency and effectiveness, while maintaining requirements for due diligence and fairness in the treatment of staff.

42. Increased mobility and redeployment of staff will be supported. In particular, we will continue to invest in attracting and deploying staff to assignments in FCS and supplementing the internal job market, improving the bench of FCS candidates, and thereby increasing client satisfaction in those client countries. The HR policy framework will be updated to increase staffing flexibility to adapt to changing skills requirements and deploy staff to better match client needs across the globe. Guidelines will be developed and promoted to support the increased use of renewable term contracts, and amendments will be made to ending employment policies and processes to facilitate appropriate separations from the Bank. These efforts will help to create the space needed to bring in new, diverse talent and skills, and enable high potential to be realized. Additionally, greater use will be made of cross-unit and time-bound assignments, and the managed deployment of staff will be increased, supplementing the internal labor market to ensure that the right talent is engaged where needed by Bank clients.

43. Reforms will continue to focus on managing for high performance and realizing the potential of Bank staff through investment in their professional development. Crucially, a system for identifying and supporting leadership talent has been re-introduced, building on recent efforts to ensure that strong pipelines are available for all key positions. The governance and focus of the Bank's learning agenda will be overhauled to better support managers and high-potential staff development of the leadership and management skills needed. Enhancements will be made to the institution's performance management processes and tools, and to the onboarding process.

44. Underpinning these reforms is the need for significant organization-wide investment in the Bank's corporate HR reporting, planning and decision-support technology to support a wider global footprint, greater emphasis on knowledge, flexibility and mobility, and better career development and performance. Investment will be made in both the foundational systems needed to support core HR services and transactions and applications to support talent management. Investment will also be made in the HR service delivery model, leveraging technology to optimize the provision of HR services through self-service, effective line management, shared services, and strategic support to the Bank's leadership.

45. IFC's recent HR strategy has been designed to support an increasingly decentralized business model, and includes the following elements:

- the need to develop a staffing and recruitment plan focused on addressing business needs, i.e., attracting, retaining, and developing client relationship, specialist, and risk management staff;
- the need to develop and adopt a market-sensitive and performance-based compensation and enhanced incentive structure;
- the design and launch of a global career framework, providing professional growth and development opportunities for staff, whether hired in a field office or in HQ;
- the availability of improved mobility support to facilitate global deployment of experienced staff to fill business needs that cannot be filled locally;
- the development of enhanced staff learning initiatives focusing on on-boarding new staff and filling critical skill gaps; and
- a revitalized staff diversity strategy to reinforce IFC's identity as a leading global development institution.

#### **Box 4. IFC's HR reforms in support of Decentralization**

**IFC Global Career Framework.** IFC's value proposition for potential recruits and existing staff is the ability to offer dynamic and challenging career opportunities worldwide. To this end, IFC has launched a Global Career Framework to provide opportunities for professional development to staff, regardless of point of hire or duty station. To implement the Global Career Framework, IFC has introduced a global approach to talent management, beginning with department-level talent reviews linked to the mid-year performance review. These discussions, which took place across the Corporation for the first time in the spring 2009, help directors and their management teams assess key staff for appropriate opportunities, such as mobility, rotations, leadership and managerial programs, strategic assignments/corporate task forces, and promotions. New professional competency frameworks are also being designed for operational staff in advisory services and investment services and were completed last year for administrative client support staff worldwide. Currently, IFC is strengthening the career development framework to ensure the long-term sustainability of a decentralized operating model.

**Mobility support.** As part of the Global/Local Asia pilot, IFC introduced a new relocation service in FY08. This service was expanded to all regions to include direct access to a mobility coordinator, pre-departure and destination country briefings, identification of in-country resources to support relocation, and enhanced career support for relocating spouses.

**Learning and development.** To support effective operations in a more decentralized organization, IFC has been revamping its learning and leadership programs. To be more responsive to the larger number of staff in the field and to focus on on-boarding new staff, IFC has been increasing training offerings in the field. In addition, IFC has implemented eLearning modules and other web-based training courses to meet the needs of the growing field-based staff.

### **Information Management and Technology**

46. The WBG Information Management and Technology (IMT) function is a key enabler of the Reform Agenda. Both in the Bank and IFC, IMT is providing integrated support to business initiatives. For FY10, WBG IMT programs have been prioritized to align closely with the major elements of the Reform Agenda. Some deliverables in the Bank Operations and Knowledge



System Program (OKSP) have been put on an accelerated delivery timeline<sup>5</sup>; IMT is developing new platforms to support risk differentiated project processing, collaboration, knowledge services and HR reform. For example, a new staff record system has been implemented, and pilots of social collaboration and search are being launched. Also, we will introduce a Collaboration platform, designed to enhance knowledge flow, and new platforms for document retention/retrieval and search; several projects have been introduced to enhance systems that support instruments developed to respond to the financial crisis; and the first phase of an effort to build a WBG client services portal has been launched, including support systems for trust funds and carbon funds. Meanwhile, the IMT strategy for integration and standardization will be launched in Q4 FY2010 and a new WBG Dashboard for decision support will come online in the same timeframe. IMT is also heavily involved in the implementation of the new Access to Information (disclosure) policy, for which a support system will be introduced by the end of calendar year 2010, while reform initiatives in HR are directly supported with application development projects. On the infrastructure side, targeted investments in improved connectivity for country offices and support for mobile staff are being made as part of the IMT program to support global operations and further decentralization.

47. To improve the capacity of WBG IMT to support business initiatives over the longer term, the WBG has put in place preliminary capabilities for the IMT community to work more effectively across the Bank Group, including an IMT Council with standing committees focused on risk management, program management, staff development, and vendor relationship management. The objective is to increase cooperation, tap into synergies, and begin putting in place Group-wide approaches to IMT standards and resource prioritization.

48. A Three-Year WBG IMT Strategy (FY11-FY13) has been developed and was presented to the Board in January 2010, with a more detailed Implementation Agenda and Key Performance Indicators to be presented in March 2010. Consultations have resulted in the identification of five strategic imperatives for IMT:

- ***seize value opportunities*** by building a partnership with the WBG's business lines;
- ***create agile delivery capacity*** by providing a tiered delivery approach to address differences in risk, scope, and breadth of business requirements;
- ***promote standards*** for data, technology and business processes to reduce costs, risks and complexity;
- ***manage risk*** with a more differentiated approach based on risk awareness for different kinds of services and assets;
- ***transform the IMT organization*** by leveraging shared services for core infrastructure capabilities, such as data center and network operations, integrating sourcing and procurement objectives with broader staffing and skills strategies, and moving to a market competitive approach to IMT talent management.

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<sup>5</sup> Phases I and II of OKSP implementation in support of IL reform will be completed by the end of calendar year 2010.

## Budget Processes

49. The Bank's planning, budgeting, and performance management process is an essential element in ensuring the effective achievement of our five priorities and the internal reforms within a resource-constrained environment. While the broad objectives<sup>6</sup> and conceptual framework (i.e., multi-year budgets which are adjusted as required to reflect emerging priorities) established in the FY05 Budget Reform remain valid, the implementation of the internal reform agenda offers an opportunity for the planning and budgeting function to further refine our budget processes and align our resources with priorities. Major changes proposed include:

- Strengthening linkages between the Bank's strategic focus, results, and budget allocations, including a consolidated discussion of net income allocations, pricing, and budget. The Bank will develop a Corporate Scorecard to translate the priorities and reforms into monitorable operational objectives and to provide a focus on corporate level results. The Corporate Scorecard will be organized around the main priorities and reform areas and will likely group indicators into five categories: clients, shareholders, financial integrity and budget, operational efficiency, and internal capacity development. The Corporate Scorecard will be focused and selective and therefore will not be a simple aggregation of lower level VPU scorecards (customized for VPU business areas). It will build upon ongoing initiatives to measure results in country programs, at the corporate level through the Results Report, and will be integrated with the results framework developed for the internal reforms;
- Expanding the planning and performance management discussions to cover all elements of the work program, including those funded by external funds. The intention is to achieve a full integration of external sources across the results chain. Integration will not only allow management and the Board to have a holistic view of all available resources, the effectiveness of their utilization, delivered outputs and achieved results, but is also a critical step in ensuring work program alignment with the institution's strategic direction. A key element will be the Action Plan of the Trust Fund Management Framework Update paper discussed above (see para. 22) including the introduction of new processes for improved quality of Bank-Executed Trust funds (BETF) reporting to integrate external funds into planning and performance management; and,
- Simplifying and streamlining budgeting, planning, and performance management systems to provide flexibility to cope with an increasingly volatile external environment while providing a relentless focus on cost efficiency through ongoing program reviews. The increased focus on results and the internal reforms provides opportunities for simplification and streamlining of the Bank's planning, budgeting, and performance management processes and supporting systems. Areas under review include the internal charge-back of costs, changes in the program cost summaries that align more closely with VPU accountability and provide a more programmatic view

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<sup>6</sup> The process intends to: (i) provide greater strategic focus for corporate decision-making, (ii) enhance the alignment of resources with strategic priorities, (iii) establish greater accountability for performance and results, (iv) improve efficiency and effectiveness.

of work programs, and improved planning systems that better integrate work program, resource, and staff planning. Flash reporting will also be introduced, as part of the ongoing internal governance reforms, to provide an early indication of key trends. More integrated reporting across WBG will help management and the Board monitor performance at the group level. The recently introduced concept of program reviews (progress update included in QBR2 – SecM2010-0073) will be used to help management identify sustainable improvements in the Bank’s cost structure and increase budget flexibility.

50. Although the Bank’s planning, budgeting, and performance management process has steadily improved since reforms launched in FY05, significant action remains to be done. The clarity of the directions provided by the Post-Crisis Directions Paper and the related reforms covered in this Paper, including budget, will provide the platform for the implementation of the next level of actions. As part of next steps, management plans to discuss these ideas in more detail with the Board, and revise its action plan to improve the process’s effectiveness accordingly.

#### **IV. Maintaining Standards and Achieving Results**

51. As the Bank changes in response to its fast-changing operating environment, maintaining fiduciary standards and quality, and achieving a greater development impact are paramount. They are crucial to maintaining the WBG’s credibility to shareholders, civil society and partners. Management is therefore pursuing reforms to reinforce the ‘checks and balances’ i.e., fiduciary and control mechanisms, of the institution. These include: transparency through a new access to information policy, and a strengthened risk management framework, building upon our governance and anti-corruption strategy and upon the findings of the IDA Controls exercise. Finally and most importantly, Management is undertaking a range of reforms to measure, monitor and manage for results. In a rapidly evolving Bank Group, the need to measure results is reinforced: only with strong performance measurement will Management appreciate how the reforms are working and if we are achieving our development effectiveness objectives.

52. **Transparency.** A more open Bank is a more accountable Bank. The Bank’s efforts to enhance transparency are embodied in its revamped policy on Access to Information. The new policy, which will be effective by July 1, 2010, follows the compelling logic that openness enables participation in—and ownership of—Bank-supported operations, and easier access to information allows the Bank to share its global knowledge, potentially increasing its impact on the ground. Providing more extensive access to information also enhances the Bank’s accountability to stakeholders – shareholders, clients, development partners, and civil society. The reform’s core is the shift from a “positive” list of information that may be disclosed to one in which the Bank will now grant access to all information other than a list of defined ‘exceptions’ (e.g., deliberative, confidential, country-owned, and “third party” information). The changes also include the provision of a right to appeal, a new “Office of Access to Information”, the clarification of procedures for disclosing information, and a time-line for declassifying over defined timescales the information not immediately disclosed.

53. **Risk management.** Management is strengthening and consolidating its risk management efforts to improve institutional ‘checks and balances’ through the development of an integrated risk management framework.<sup>7</sup> Three major ongoing initiatives form the backbone of this framework: the Governance and Anti Corruption Strategy (GAC), the on-going work on Controls Systems and an independent review of the Bank’s multiple oversight agencies.

54. The GAC, approved by the Board in March 2007, seeks to enhance the awareness and role of governance approaches and anti-corruption activities of the Bank by building client capacity, working in partnerships and strengthening the integrity of Bank operations. A key element of the GAC implementation plan addresses fraud and corruption in Bank-funded operations. Implementation of the Volcker Panel recommendations, the strengthening and reorganization of INT, the development of protocols, and the design and dissemination of guidance and toolkits to Bank staff all combine to enhance the Bank’s ability to address fraud and corruption. Over time, it is expected that GAC activities will support the reduction of fraud and corruption in Bank operations and provide key insights into IL reform. The Bank is also putting in place a comprehensive framework for sanctions reforms, including new provisions for cross-debarment.

55. The second plank of the institution’s ‘checks and balances’ reforms, internal controls, provides a structured platform for the Bank to achieve business objectives while addressing risk. The control framework includes policies, and updated operating processes and policies. In 2009, IDA undertook a comprehensive assessment of its control framework – a groundbreaking undertaking for an international institution, requiring the development of an evaluation methodology, mapping of the control framework, review and testing, and external validation.<sup>8</sup> While the review found that the existing controls provide reasonable assurance overall on the use of IDA resources, it also identified a number of areas for further improvement, including better risk analysis, more attention to fraud and corruption risks, the need for policy and process simplification, and enhanced document retention. These are now being addressed in the current reform work and overseen by an Implementation Oversight Panel. This effort will be completed by the end of 2010.

56. The third plank is the role of oversight units. Recent work has shown that the Bank has a complete set of oversight units—IEG, IAD, the Inspection Panel, IFC CAO, and INT—to help provide an independent validation of the development results achieved and adherence to our policies and procedures. While these oversight units are robust and comprehensive, they appear to have overlaps and redundancies, resulting in a complex and confusing array of controls. WBG Management is cooperating closely with the Board, as the Board initiates a comprehensive, independent evaluation of the mandate and ToRs of these units to strengthen their effectiveness, eliminate redundancies, and rationalize their activities.

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<sup>7</sup> See IBRD/IDA Integrated Risk Monitoring Report (AC2009-0131, November 13, 2009).

<sup>8</sup> Overall, the findings were that existing controls provide reasonable assurance to Senior Management and the Board on financial statements and compliance with the Articles of Agreement and operational policies and procedures. The review, however, pinpointed areas for improvement, including better risk analysis, more attention to fraud and corruption risks, and the need for policy and process simplification that are now being addressed in the current reform work, notably investment lending reform and GAC.

57. All of these efforts are being brought together in a comprehensive integrated risk management framework. We will prepare annually an integrated risk monitoring report using this framework and the effort will be overseen by a World Bank Group Chief Risk Officer.

58. **Results.** Demonstrating results is central to our credibility. To measure and monitor development effectiveness, we are operating a results framework at three different levels. First, all country and sector strategies and projects have results frameworks and the outcomes are assessed by staff and independently validated by the Independent Evaluation Group. To complement and enhance our project-level evaluations, the Bank is strengthening its work on impact evaluations through the DIME initiative, to get better feedback on what works and what does not. Second, a set of core indicators has been developed and is being expanded to measure our outputs. These indicators which were originally developed for IDA are being expanded in terms of sectoral coverage and to IBRD operations. And third, a results framework, developed to track progress on our reforms, which will be integrated into the corporate scorecard. Further initiatives to improve this system are underway. To strengthen this framework, a range of design improvements are underway to enhance the results frameworks for CASs, IDA/IBRD operations and AAA, improve the availability of baselines at entry, strengthen the design of monitoring systems and their use in-country, and take advantage of new opportunities for undertaking impact evaluations. Under HR reforms, the Bank Group will take steps to ensure that a “results culture” is embedded in the corporate culture by progressively linking performance evaluation more closely to the achievement of results, and similarly for the budget, we are working to use results to more explicitly inform budget allocations.

59. **IFC development results measurement.** Achieving positive development results is at the core of IFC's mission. Measuring those results well is an essential component in making decisions about where to invest or provide advisory services, and IFC has been a leading institution in the area. IFC's operational decisions are informed by the results of both IEG studies, and the Development Outcome Tracking System (DOTS), launched in 2005. DOTS has further enhanced IFC's ability to monitor results from investment and advisory services by allowing real-time feedback on standardized indicators in order to inform project design and implementation. Using DOTS, staff provide *ex ante* estimates of development results for all projects and then track performance against expectations. Since DOTS tracks projects from inception against targets, initial results are available earlier, allowing more timely feedback into strategy and operations. An IEG evaluation in 2008 concluded that DOTS had become a reliable monitoring tool, complementing more in-depth project evaluations. The introduction of an improved IT-system, DOTS-2, in 2009 will further enhance IFC's ability to use development results as a primary driver in its decision making. DOTS results are also instrumental for IFC to set and refine its development goals as part of IFC 2013, and to monitor implementation.

## V. Conclusion

60. Taken together, the reforms are expected to establish the organizational dynamics, incentives and accountability framework for a business model that allows clients to benefit from a more flexible and adaptable set of operational instruments. The reforms envision a World Bank Group able to offer in real time a customized package of financial and knowledge services, delivered by a mobile, tightly connected work force at the cutting edge of development practice.

This will enable the WBG to hone its comparative advantage and deliver on the five priorities that anchor the WBG's post-crisis directions.

61. The elements of the reform agenda described in this paper have been sequenced taking into account the substantive linkages and practicalities of implementation. Information on costing is still being refined. In subsequent discussions on budget and planning, Management will elaborate on the principles guiding budget allocations to reflect these reform efforts and, if necessary, discuss further prioritization and sequencing to ensure affordability within the flat real net administrative budget. To maximize the transformational effects on the institution and achieve the cultural change required, the process of implementing these reforms is as critical as the reforms themselves and to that end, Management has embarked on an extensive communications effort to engage staff.

62. To ensure coordination and monitoring of the internal reform agenda, the WBG is putting in place an institutional structure, a timeline of reforms and an internal reforms results framework, containing a set of reform indicators with baselines and targets. The IFC has temporarily established a Director of Change Management to oversee the implementation of the IFC 2013 strategy and the ongoing internal reform program. At the World Bank, we will also establish a Secretariat headed by a Director to monitor, advise and report on the implementation of these internal reforms. A detailed set of reforms and their expected timing over the next 18 months are summarized in [Annex 1](#). The Bank's results framework is presented in [Annex 2](#). Management intends to report on the implementation of reforms and progress against the results framework on a semi-annual basis and will update the targets as reforms take hold. The IFC is monitoring progress through the results framework established under IFC 2013.



### Annex 1: Reform Agenda: Timeline for Deliverables

Reform	End Fiscal Year 2010	End Calendar Year 2010	End Fiscal Year 2011
<b>Modernizing services</b>	<ul style="list-style-type: none"> <li>• Fully roll out operational risk assessment framework, new model of implementation support, and remodeled reporting framework</li> <li>• Establish Knowledge Council</li> <li>• Update Trust Fund Management Framework</li> </ul>	<ul style="list-style-type: none"> <li>• Revise and consolidate policies and procedures for investment lending</li> <li>• Expand to 12 the number of specified teams of global experts on high priority topics</li> </ul>	<ul style="list-style-type: none"> <li>• Agree on new results-based investment lending option</li> <li>• Finalize reform proposals for analytical and advisory activities</li> </ul>
<b>Enhancing service delivery</b>	<ul style="list-style-type: none"> <li>• Strengthen field presence in low-income and fragile-states, especially Africa, by moving more task management to the field</li> <li>• Increase number of country directors in Africa</li> <li>• Establish accountability framework for Bank operations</li> <li>• Establish matrix leadership team</li> </ul>	<ul style="list-style-type: none"> <li>• Identify “early movers” to gain implementation experience for new decentralization model on a small scale, including establishment of at least one subregional hub in Africa to serve fragile states</li> <li>• Increase cross support by high-end staff and monitor implementation</li> <li>• Launch IFC (i) new industry groups and (ii) Istanbul operating center</li> </ul>	<ul style="list-style-type: none"> <li>• Approve new decentralization approach, including a phased and costed transition and implementation plan to commence in FY12</li> <li>• Implement organizational plan to rationalize sector managers’ span of control</li> <li>• Establish framework for network accountability including for knowledge</li> </ul>



<p><b>Enabling systems</b></p>	<ul style="list-style-type: none"> <li>• Consolidate discussion of net income allocations, pricing, and budget</li> <li>• Institute annual corporate review of managerial bench strength</li> <li>• Launch Information Management Technology strategy for integration and standardization</li> <li>• Implement WBG Dashboard for decision support</li> <li>• IFC roadmap for IFC 2013 recommendations and budget proposals, including cost implications of IFC 2013</li> </ul>	<ul style="list-style-type: none"> <li>• Operationalize Corporate Scorecard</li> <li>• Implement new recruitment process aimed at reducing cycle time</li> <li>• Expand use of clustered recruitment</li> <li>• Enhance control and knowledge transfer through implementation of new document retrieval and search system</li> <li>• Launch new IFC performance management cycle</li> </ul>	<ul style="list-style-type: none"> <li>• Finalize new compensation and benefits framework for approval</li> </ul>
<p><b>Transparency, accountability, and results</b></p>	<ul style="list-style-type: none"> <li>• Implement Access to Information policy</li> <li>• Establish external appeals committee for access to information policy</li> <li>• Establish secretariat to monitor, advise and report on internal reforms</li> <li>• Put in place sanctions reform, including cross-debarment</li> <li>• Develop and report on core indicators in four sectors for IDA</li> </ul>	<ul style="list-style-type: none"> <li>• Complete IDA controls effort</li> <li>• Conduct an independent review of oversight units agreed with the Board</li> <li>• Appoint a World Bank Group Chief Risk Officer, who will annually publish an integrated Risk Monitoring Report</li> <li>• Complete first Annual Results Report</li> </ul>	<ul style="list-style-type: none"> <li>• Implement fully the Results Agenda by establishing corporate-level reporting framework and issuing annual results reports.</li> <li>• Expand number of sectors with core indicators to seven</li> </ul>

## Annex 2: Results Framework

	Baseline (end-FY09)	Target (end-FY011)
<b>Effectiveness</b>		
• CAS Completion Reports (% moderately satisfactory and above)	n/a <sup>/a</sup>	75
• Project Outcomes (% mod. Sat and above) <sup>/b</sup>		
- Fragile States	68	70
- LICS	69	75
- IBRD	79	80
• Use of Country Systems		
- FM (PD survey)	62	65
- Procurement (PD survey)	52	55
• AAA and TA	Counting of Products and Outputs	Monitoring Indicators for Intermediate Outcomes
• IT: Stakeholder Satisfaction with Enabling IMT Systems for Reform Initiatives (as measured by IT Steering Group)	n/a	Overall 7/10
- Investment Operations, Results Agenda	n/a	7 on a 10 point scale
- Advisory Services, Knowledge Strategy	n/a	7 on a 10 point scale
- Decentralization	n/a	7 on a 10 point scale
• Client Satisfaction <sup>/c</sup>		
- Achievement of Results (# of regions where majority of opinion leaders agree Bank achieves results)	3	4
- World Bank Group Relevance (# of regions where majority of opinion leaders agree)	5	6
<b>Efficiency</b>		
• Processing Tracks for Risk-Based Approach to IL		
- Track I - Express Process (% of projects)	25 <sup>/d</sup>	40
- Track II - Regular Process (% of projects)	75	60

<sup>/a</sup> Due to a very small number of Results-Based CASCRs validated by IEG review no baseline is available.

<sup>/b</sup> Based on a three year average of operations exiting IBRD/IDA and trust fund portfolios evaluated by IEG as of February 23, 2010.

<sup>/c</sup> Based on results of 2008 Global Poll. Target is based on the belief internal reforms will influence opinion leaders in the next global poll.

<sup>/d</sup> Additional financing projects.

	<b>Baseline (end-FY09)</b>	<b>Target (end-FY011)</b>
<ul style="list-style-type: none"> <li>• Speed (Concept Note to Approval in Months) <ul style="list-style-type: none"> <li>- DPOs (OP 8.60) 5.9 Maintain &lt; 6.0</li> <li>- Emergency Operations (OP 8.0) 3.9 Maintain &lt; 4.0</li> <li>- IL: Additional Finance 6.2 Maintain &lt; 6.0</li> <li style="padding-left: 40px;">Standalone ILs 16.4 14.0<sup>e</sup></li> </ul> </li> <li>• Implementation <ul style="list-style-type: none"> <li>- Disbursement Ratio 25.7% 25%</li> <li>- Disbursement Delays (OP 8.0)<sup>f</sup> 35% 25%</li> </ul> </li> <li>• Knowledge <ul style="list-style-type: none"> <li>- Global Expert Teams (GETS) (number of) 9 15</li> <li>- Technical level GI staff (number) 12 20</li> </ul> </li> <li>• Decentralization <ul style="list-style-type: none"> <li>- TM in COs (% tasks managed in COs) 29.3% 31%</li> <li>- Regional IRS staff in Country Offices 27.3% 29.5%</li> </ul> </li> <li>• Matrix <ul style="list-style-type: none"> <li>- Cross-support (%) 3 10</li> </ul> </li> <li>• HR <ul style="list-style-type: none"> <li>- Posting to appointment (days) 201 150</li> <li>- Rotation (% of operational staff 7+ years in VPU) 24.2% TBD</li> <li>- Supervisory span of control (average no. of staff) 34 TBD</li> </ul> </li> </ul>		
<b>Accountability</b>		
<ul style="list-style-type: none"> <li>• Access to information <ul style="list-style-type: none"> <li>- Requests completed in line with new service standards n/a 90%</li> </ul> </li> <li>• Risk Monitoring <ul style="list-style-type: none"> <li>- Responsiveness to IEG recommendations 41% TBD<sup>g</sup></li> </ul> </li> </ul>		

<sup>/e</sup> Average for High and Low risk projects – Dependent on rollout of Risk-Based approach.

<sup>/f</sup> Calculated as percentage of FY08-09 OP 8.0 approvals taking over 3 months from effectiveness to first disbursement.

<sup>/g</sup> The target will be set when the revised MAR process is finalized.

	<b>Baseline (end-FY09)</b>	<b>Target (end-FY011)</b>
• IT		
- IT Risk Mgmt. (% Overdue Audit Findings)	n/a	Less than 5%
- Board Engagement/Updates	0	Twice per year
• Managing for Development Results (MfDR)		
- Sector Indicators (number of sectors)	4	7