



DEVELOPMENT COMMITTEE  
(Joint Ministerial Committee  
of the  
Boards of Governors of the Bank and the Fund  
on the  
Transfer of Real Resources to Developing Countries)



**DC2010-0013**  
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**STRENGTHENING GOVERNANCE AND ACCOUNTABILITY:  
AN UPDATE**

Attached for the October 9, 2010, Development Committee Meeting is a background document entitled "Strengthening Governance and Accountability: An Update".

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## ACRONYMS

AI	Access to Information Policy
AMs	Annual Meetings
CAS	Country Assistance Strategy
COGAM	Committee on Governance and Administrative Matters
DC	Development Committee
DTC	Developing and Transition Countries
IFC	International Finance Corporation
IL	Investment Lending
ORAF	Operational Risk Assessment Framework
QSC	Quarterly Steering Committee
WBG	World Bank Group

### I. Introduction

1. The World Bank Group (WBG) is continuing work on a series of reforms to its internal governance structures and accountability framework in order to improve the efficiency and effectiveness of its governance as well as to enhance the standing and legitimacy of the WBG as a global development institution.

2. This report builds on the framework established by the April 2010 Board paper on governance to the Development Committee. It reflects discussions in COGAM and the Board and describes the progress, status, and continuing work on governance reforms. This report also establishes the foundation for development of possible recommendations for the 2011 Spring Meetings and the Summary and Next Steps section suggests a roadmap for COGAM and Board discussions.

#### *Recent Discussions of Internal Governance*

3. The current set of governance reforms originates from the Board discussions on strategy, oversight, and accountability in the context of Board-Management relations in 2007. The October 2008 paper, *Report of the Working Group on Internal Governance*, undertook a review of the Bank's governance framework, based on which the April 2009 paper on *Review of Internal Governance: Conclusions of the Consultations and Proposals* put forth specific recommendations for implementation.

4. In April 2010, Management presented a set of operational and institutional reforms aimed to enhance the overall effectiveness, efficiency, legitimacy, and accountability of the WBG. Some of these reform areas have direct implications on the governance of the institution, from the perspective of Board / Management relations, institutional accountability, and relations with external stakeholders. In addition, the Board discussions of the governance reforms over the last year added another focus area – shareholder stewardship and oversight.

5. The April 2010 Board Report to the Development Committee on *Strengthening Governance and Accountability - Review, Results, and Roadmap* (DC2010-0007) reviewed and summarized all ongoing reforms at the WBG from the perspective of internal governance. Reflecting the views of the Board members, the Report offered the context and content for various reform efforts to improve the robustness of the accountability culture within the existing governance framework to address main concerns over the WBG Governance: focus on results and development effectiveness; strategy formulation process; and inclusiveness of voice and views of DTCs.

#### *Focus of Current Governance Reforms*

6. The April 2010 Report on Governance defined a complex set of governance relations among the various internal and external stakeholders from the perspective of two main and interdependent principles – *oversight and accountability*. In the context of maintaining the overall trust and legitimacy of the WBG in the eyes of the public, authority and responsibility is distributed by the shareholders to the Board and the President and then delegated within the institutional structure, establishing oversight and accountability relations along the way. Delineation of oversight and accountability among stakeholders, however, is not always clear. Better definition of these relations will contribute to a new governance culture in the World Bank and strengthen overall accountability for results.

7. Based on the framework established by the April 2010 Development Committee Report and as requested in the April 2010 Development Committee Communiqué, this Report describes the reforms from the perspective of accountability and oversight framework between Board and Management in relation to

(i) *shareholder oversight* and (ii) *external stakeholders*; and over (iii) *core operations* and (iv) *institutional policies*. The Report updates the Governors on the status of various governance related reforms, while a parallel Development Committee paper will provide an update on the status of the broader set of operational and institutional reforms presented to the Governors in April 2010.

8. There is a natural overlap between the reforms considered in this Report and the broader set of operational and institutional reforms contained in the parallel paper *World Bank Group Reform – An Update* for the Development Committee. For instance, when considering specific reforms initiated by the Board to strengthen the governance framework over core operations, (e.g. conditional approval of operations when discussing Country Assistance Strategies), it is sensible to also review parallel reforms that affect the same governance relations between Board and Management (e.g. investment lending reforms). By reviewing the progress on selected operational and institutional reforms that could have significant implications on accountability and oversight relations amongst stakeholders – which the governance reforms aim to strengthen – this Report considers these reforms only from the perspective of the governance framework.

## **II. Shareholder Stewardship and Oversight**

9. As part of the changing governance architecture, there are ongoing efforts to improve the oversight and accountability framework between shareholders and the institution:

### ***Update on Reforms under Implementation***

- *Phase I of Annual Meetings and Development Committee Reforms:* Board and Management agreed on a first phase of changes to the format of the Annual Meetings, which will begin in October 2010. A shorter Plenary will launch the Annual Meetings and will include key messages on the accomplishments of the two institutions. Governors' statements will be video-taped and posted on the Annual Meetings' website as well as on the institutions' internal and external websites, immediately expanding the audience. The purposes of the Annual Meetings also have been clarified to reflect the current expectations from the Governors' gathering. This first phase of reforms lays a foundation for further reforms, as described below.

### ***Update on Reforms under Discussion***

- *Phase II of Annual Meetings and Development Committee Reforms:* The second phase of reforms will focus on modifications and improvements to the current arrangements and will enhance the engagement of the Governors in providing strategic guidance and shareholder oversight. Reforms would improve the overall flow of the Annual Meetings by better linking various events from the Plenary session to the Development Committee meeting. The modifications would acknowledge the role of the Development Committee in the provision of strategic guidance, and effectiveness of the roles of the Annual Meetings and Development Committee Chairpersons as well as the Development Committee Secretariat. The prevailing view of the Board and Management is to maintain the Development Committee's membership and mandate as is. The Governors' intent for the mandate of the Development Committee has been for it to continually evolve in order to further strengthen the linkages between its role in "providing strategic guidance on the transfer of real resources to developing countries" and its role in guiding the activities and outcomes of the institutions.
- *Integrated Development Results and Corporate Performance Framework (and Scorecard):* Management is developing an integrated development results and corporate performance framework with measurements along the results chain. Different types of reports with different

frequencies would be drawn from this framework. A subset of these measures, focusing on operational and organizational effectiveness and implementation of the internal reforms, will form the corporate scorecard (end CY10). When operationalized, the corporate scorecard will serve both as a management tool and also become an integral part of the institutional reporting to shareholders. A summary of progress along the full results chain of this integrated framework will form the basis of the Annual Results Report.

- *Dual Performance Feedback:* A COGAM Working Group composed of Board and Management representatives was established to work on developing a framework for the dual performance feedback of the Board and President. COGAM discussed a report from the Board members of the Working Group and endorsed the report as a significant input to continued work on the framework, which would be taken up by a renewed, integrated Board-Management Working Group in the next term of the Board. A recommendation of the Board members of the Working Group for a pilot self-evaluation of the Board will be implemented in Fall 2010, subject to the Board's approval. Lessons learned from this exercise also would feed into further work by the renewed Working Group on the development of a comprehensive framework. The framework will be developed in coordination with the discussions of the Working Group on Presidential Selection, in time to be integrated into the next presidential selection round. A report will be presented to COGAM and the Board for consideration before the 2011 Spring Meetings.

### *New Initiatives*

- *Presidential Selection:* The April 2010 Development Committee Communiqué reiterated “the importance of an open, merit-based and transparent process for the selection of the President of the World Bank Group.” A Working Group has been established by COGAM to develop recommendations for strengthening the selection process, in line with the request from the Development Committee. A report will be presented to COGAM and the Board for consideration before the 2011 Spring Meetings.

### **III. Maintaining Trust and Legitimacy**

10. Improved voice and participation of developing and transition countries (DTCs), assessment of the WBG’s effectiveness on the ground, continuation of Management and Staff Diversity and Nationality of Focus initiatives and an expanded access to information policy are critical steps for maintaining the credibility, trust, and institutional accountability of the WBG. Recent actions in this regard include:

- *Implementation of the 25<sup>th</sup> Chair for DTCs:* The proposals to Enhance the Voice and Participation of DTCs were approved by Executive Directors on July 20, 2010. The Report of the Executive Directors and accompanying resolutions have been sent to the Governors for adoption. The process for the Regular Election of Executive Directors for 2010 has been announced and also includes the election of the 25<sup>th</sup> Chair of the Board (third seat for Sub-Saharan Africa).
- *Access to Information Policy:* On July 1, 2010, the new Access to Information (AI) Policy, which allows access to any information in its possession that is not on a list of exceptions, went into effect. The Policy includes a two-stage appeals process to address requests for access to information. An Access to Information Committee and an Appeals Board have been established. In this respect, COGAM will consider the creation of an Access to Information working group to focus on requests related to Board records.

#### IV. Operational Reforms and Governance of Core Business

11. The Executive Board is accountable to shareholders for its oversight of Management and performs a fiduciary role over WBG operations. The operational reforms reaffirm the roles of the Board and Management and aim to support greater effectiveness and efficiency in their respective roles:

##### *Update on Reforms under Implementation*

- *The CAS Pilot* provides for conditional Board approval of operations submitted alongside CASs for discussion to help focus the Board at the strategic level while maintaining flexibility in implementation. Selection of country programs to be included in the pilot is underway. Management will discuss implementation progress with COGAM after one year of implementation, and report back to the Board on implementation of the pilot two years after the last CAS in the pilot has been discussed by the Board.
- *Investment Lending* reforms introduce a risk-based approach to investment lending that respects the Board's fiduciary role and improves its oversight by focusing on higher risk operations, while strengthening managerial accountability. This is expected to assist management to better manage risks and focus resources on those operations where the risk is highest by adopting simpler processing requirements for low-risk operations. A central element to the risk based approach is the new Operational Risk Assessment Framework (ORAF) which promotes a more integrated approach and provides a consistent risk assessment methodology across the Bank. Risk rating trends by project, sector, country and the entire portfolio will be made available to allow the Board and Management to make strategic decisions balancing risks and results. The approach was piloted between January and June 30<sup>th</sup>. As of July 1<sup>st</sup>, the approach applies to all new operations are categorized by the Operational Risk Framework. Full effectiveness of the risk framework will require further cultural changes and adjustment to internal incentive systems.

##### *Update on Reforms under Discussion*

- *IFC's Streamlined Procedure*. Subject to some modifications, COGAM endorsed a proposal from IFC Management to modify IFC's Streamlined Board procedure based on a risk-based approach and a paper will now be submitted for Board approval. In addition to the tangible benefits to key stakeholders, the proposal would have an important signaling effect to IFC clients and staff alike with respect to efficiency and client responsiveness. The Board would be able to engage earlier in the project cycle and tilt its focus towards strategic, policy and programmatic issues, and provide a greater opportunity for greater strategic engagement between the Board and IFC. The proposal is founded on an enhanced Risk Management Framework<sup>1</sup>, which would enable IFC to balance adaptability and responsiveness to stakeholder demands, with oversight and decision-making authority commensurate with project risk profile. The risk governance structure provides the flexibility to meet the evolving needs of the institution, while ensuring robust oversight of the risks embedded in IFC's mandate. The proposal would begin with an 18-month pilot phase and a subsequent review period.
- *A Stronger Results Framework* allows for improved accountability and oversight over core operations. As mentioned earlier, a parallel Development Committee paper, *World Bank Group Reforms – An Update*, summarizes progress in launching and implementing a broader set of operational and institutional reforms since Spring 2010. Management has put in place a robust operational governance structure, including the Matrix Leadership Team, the Knowledge and Learning Council, and the Internal Reform Secretariat, which will closely monitor progress and

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<sup>1</sup> *Integrated Risk Management Framework* (AC2010-0030), Audit Committee Meeting, March 24, 2010.

draw lessons from early implementation. The Matrix Leadership Team is developing an accountability framework for operations. A review of managerial accountability within selected operational units has been completed. Further work on accountability issues will be undertaken in FY11.

### ***New Reform Areas***

- *End-Fiscal Year Bunching of Lending Deliverables*: Bunching refers to the share of number of projects submitted to the Board in the final quarter of the fiscal year. Bunching has been a long standing issue in the Bank, but intensified in FY10, when overall volume of lending and total number of projects approved also reached record levels in response to the financial crisis. Management will discuss with the Board the measures that need to be taken to reduce bunching, including how certain operational reforms and initiatives (such as IL reform and the CAS Pilot) could contribute to this goal. While greater Board delegation of the approval of certain types of operations to Management is one mechanism, other proposals including integrated planning and scheduling will also contribute to improvements. This would provide an opportunity for the Board to discuss the potential implications of operational reforms for bunching in the context of the governance framework, *i.e.*, shifting Board discussions to strategy, guidance, and oversight, with greater focus by Management on operational matters.

## **V. Institutional Reforms and Overall Board-Management Relations**

12. The relationship between Board and Management reaches beyond the governance of core business – lending and knowledge – and plays an important role in overall institutional governance.

### ***Update on Reforms under Implementation***

- *Steering Committee Process*: A new strategic interaction with the Executive Directors in the form of a “Quarterly Steering Committee” (QSC) has been introduced. The QSC focuses on strategic dimensions and interrelations of various topics based on an agreed roadmap. The format and agenda will be further developed to become more interactive and include more structured presentations from senior management.
- *A Review of Delegation of Authority* has been initiated to improve delineation of authority and responsibility within the management stream. This exercise is being conducted in three stages. During the first stage, which will be completed in September, the decision making and approval processes within the Regional Vice Presidencies have been examined. The entire assessment will be completed in early 2011 and a new framework for delegations of authority could be developed thereafter.

### ***Update on Reforms under Discussion***

- *External Review of Oversight Units* to assess gaps and redundancies will be undertaken following the recently completed self-assessment of these units. Board approval is being sought in September on the Terms of Reference for the External Review and an overall approach to the review to be carried out under the general oversight of COGAM.

## **VI. Summary and Next Steps**

13. This Report provided updates on the governance reforms based on the framework established in the Board Report to the Development Committee in April 2010, focusing on improving accountability and oversight in the context of relationships between the Board and Management over core operations and



institutional policies, shareholder engagement, and relations with external stakeholders. Taken together, these reforms will contribute to a stronger accountability culture to address main concerns of the overall governance framework – focus on results and development effectiveness, strategy formulation, and views and voice of DTCs. The reforms are in various stages on discussion and implementation, as summarized below.

### ***Core Operations and Institutional Policies***

- Strengthened accountability and oversight will continue to be applied as a guiding principle for defining and implementing operational and institutional reforms that are part of a broader set of reforms presented by the Management to the Development Committee, including *Investment Lending, Matrix Review, Development Effectiveness Risk Framework, and Results Framework; among others.*
- Implementation of specific governance reforms identified in Board discussions and that already have been agreed upon will continue, including *CAS Pilot, Quarterly 'Flash' Reports, Format for Policy Papers, Quarterly Steering Committee; Delegation Matrix.*
- Discussions will continue in order to reach agreement on remaining governance reforms previously or newly identified by the Board, including *Review of Oversight Agencies, Waiver Policy, Executive Directors' Budget; Bunching.*

### ***Maintaining Trust and Legitimacy***

- Implementation of *the 25<sup>th</sup> Chair for DTCs* will be finalized in Fall 2010 and implementation of *Access to Information Policy* will continue.
- Implementation of reforms supporting voice and participation and country ownership and partnerships will continue, including the *Decentralization, Human Resources, and Diversity and Nationality of Focus.*

### ***Shareholder Stewardship and Oversight***

14. The prevailing view of the Board and Management is that the current framework for shareholder engagement is adequate for providing stewardship and oversight to the institution. However, a number of governance initiatives are being implemented to improve the existing framework for shareholder stewardship and oversight:

- Innovations to the *Annual Meetings and Development Committee in Phase I* will be implemented starting in October 2010 to enhance accountability to shareholders and enhance prospects for shareholder stewardship.
- At the request of shareholders, two new initiatives have been introduced – the *Working Group on Presidential Selection* and the *Working Group on Dual Performance Feedback.* The Working Groups will report to the Board prior to the 2011 Spring Meetings.
- A *Scorecard* that contains a set of measures of operational and organizational effectiveness and internal reforms, as part of the integrated development results and corporate performance framework, will be developed by the end of CY10.

- The Board and Management would consider the experiences of the innovations to the *Annual Meetings* introduced in October, and discuss further adjustments necessary as part of *Phase II of Annual Meetings and Development Committee Reforms* before the 2011 Spring Meetings.

15. These reforms would aim at improving coherency and integrating the flow of the overall Annual Meetings Event, including the Development Committee meeting, and provide a platform and sufficient content for enhanced shareholder stewardship, engagements with external stakeholders for showcasing institutional achievements, and institutional accountability. Hence, looking forward to the Spring Meetings, the further discussions of changes to the Annual Meetings and Development Committee in order to enhance shareholder stewardship and oversight would focus on the following areas:

- The role of the Annual Meetings as a mechanism for institutional accountability.
- The format of the Annual Meetings for shareholder inclusiveness and engagement; participation of governors in various events; and thematic or regional focus for plenary sessions during the Annual Meetings.
- The role of the Development Committee and Development Committee Secretariat, including enhancing shareholders' involvement in agenda setting for the Development Committee and strengthening the role of the Development Committee on setting strategic directions and as an accountability mechanism on WBG strategic priorities, performance, and results.
- The format of the Development Committee's informal and formal sessions, the role of observers, and reduction of statements in order to encourage a frank exchange.