



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)



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**REVIEW OF INTERNAL GOVERNANCE
CONCLUSIONS AND PROPOSALS**

Attached for the April 26, 2009, Development Committee Meeting is a background report entitled "Review of Internal Governance Conclusions and Proposals" which has been approved by the World Bank Executive Directors.

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REVIEW OF INTERNAL GOVERNANCE

CONCLUSIONS AND PROPOSALS

April 2009

1. The following report sets out the conclusions and proposals of the Executive Directors' review of internal governance as it relates to the shareholders' oversight and policy guidance provided through the Board of Executive Directors. This is just one part of a comprehensive approach to strengthening World Bank Group governance and overall effectiveness, which also includes voice and participation, decentralization and more broadly the cost of doing business with the Bank to improve its responsiveness and adaptability to its members needs.

Background and Context

2. Since the World Bank was established over 60 years ago, its role in supporting economic and social development has expanded and deepened with changes in the global context and the evolution in the financial architecture. The focus on strengthening internal governance systems and structures is driven by external and internal forces. Executive Directors are engaged in discussion of their role in strategy, oversight and risk management, with a consensus that the Board should become more strategic and avoid micro-management.

3. In 2007, the Development Committee acknowledged the Board's ongoing work to reform the internal governance of the World Bank Group. While the Board continues to focus on identifying and implementing improvements in its internal governance, recent external events, particularly the global financial crisis bring even greater urgency to a broad internal governance reform. The establishment of a High Level Commission on Modernization of WBG Governance provides further input to this process. Together, these factors are adding to the momentum for strengthening Internal Governance generally.

Progress

4. In October 2008, the Report of the Working Group on Internal Governance ("Familiar Report" COGAM2008-0028/1) was transmitted to the Board, and as requested by the Board, COGAM discussed a matrix of follow up actions in December 2008 (COGAM2008-0049). It was agreed at COGAM in February 2009 to initiate a

consultation process on the basis of the principles and objectives of the “Familiar” report and the Management matrix to obtain the views of the Executive Directors. Mr. Watson agreed to lead the consultation process. This is a synthesis document which includes the views of the Executive Directors that were expressed during the consultations and sets out the areas where consensus has been reached to proceed. It also outlines some milestones for the next stages of the process. The Familiar report contains a diagnosis of internal governance and provides a useful background to this report.

Focus of this Report

5. This report reflects on internal governance as it relates to the Board and its relationship with management. While acknowledging that existing systems and structures serve the organization well, proposals are intended to promote continuous reform. The report considers the scope for change in three distinct areas, Board Effectiveness, Oversight and Strategy. Board Effectiveness considers how improvements in the timeliness of documentation, a structured agenda and improved board practices can enhance the discussion of issues and trends and support decision-making. To support the Board’s oversight role, section 2 proposes changes in relation to quarterly reporting, delegation of authority, risk management and self evaluation. The Strategy section introduces an innovative proposal for conditional approval for groups of projects under a Country Program which meets a set of agreed criteria. Agreement on this proposal would ensure greater certainty for management while releasing some time for Executive Directors to focus on oversight and strategy.

Structure

6. The report is divided into three parts, *Part I considers Board Effectiveness, Part 2 considers Oversight* and *Part 3 focuses on Strategy*. The proposals outline a set of steps for reforming Board internal governance. While some proposals can proceed immediately, others will require reflection and further analysis as indicated.

Part I Board Effectiveness

7. Board Effectiveness will consider two areas. **Part A** will focus on **Systems and Structures** while **Part B** will include **Board Operations**.

A. Systems and Structures - Documentation, Board Agenda, Board Practices and Postponements

Documentation

- Lending Documentation

In September 2008, the Bank substantially revised the format of lending operations in order to simplify Board decision making and to clarify the process.

- Country Program Documentation

Country program document content (CASs, etc.) will be looked at in the context of the CAS retrospective which is scheduled for CODE discussion in May 2009.

- Policy Papers

Policy paper content and format have been discussed by past Board reviews (most recently in the Board Effectiveness paper). Key findings include:

- i. Policy papers should be concise and focus on defining the issues. They should provide options with targets and indicators. Where appropriate, they should show the budgetary consequences of proposals, and a clear statement of Management's unbiased recommendations and rationale.
- ii. Policy papers should be as short as the substance and clarity allow.
- iii. Despite the diversity of documents, it should be possible to agree guidelines for all policy papers. These would include:
 - **An Executive Summary** identifying the context, key issues and questions to be addressed by the Board;
 - **Presentation of options** and rationale for recommendations or conclusions;
 - **Outline of previous decisions** and any legal background;
 - Application of **sector strategy** or policy; and
 - **Cost** Implications.

8. Also, during consultations Executive Directors suggested the papers include a clear results framework, discuss risk management, and, for strategies, staffing resource implications of the new strategy, and a clear enunciation of what the Bank won't do as a result of the strategy.

Proposal

Board agrees before Spring Meetings 2009 on above principles for policy papers. SEC and OPCS implement a pilot for a set of significant operational policy papers between now and the Annual Meetings as outlined above. At that time, COGAM will evaluate the experience to provide guidance and propose next steps.

Board Agenda

9. Board members can influence the Board Agenda through four main avenues:

- During the monthly Steering Committee discussions;
- During and before any Board meeting under the 'Other Business' category;
- Committees can identify topics for future discussion; and
- The Dean's luncheon with the President.

Proposal

SEC will identify for the FY10 Board work program alternative means of organizing Board agenda, so as to improve coherence in the way in which topics are discussed by the Board in one day/week/month.

Board Meeting Practices

10. Management would be able to provide more comprehensive written responses if they could get Board statements with questions and requests for clarification earlier.

To facilitate this change, Board members would also need to get the relevant documentation earlier.

Proposal

Board documents should be distributed one day earlier than the current lead times.

EDs' statements should be filed by 6:00 pm two working days before the day of the Board meeting.

The written staff presentations responding to EDs' statements should be circulated by 6:00 pm on the last working day before the day of the Board meeting. Staff presentations will be available electronically on eBoard.

For Board documents circulated with less than the required lead time, EDs' statement should be filed by 6:00 pm on the last working day before the day of the Board meeting. Staff presentations delivered at the Board meeting will also be available electronically on eBoard.

This proposal would be implemented from July 1, 2009 (FY10).

Postponement

11. No further action is required on Postponement procedures, since these are adequate.

B. Board Operations - Chairmanship and Committees

Chairmanship

12. Chairmanship of Board meetings needs to reflect a strong strategic and institutional focus in order to arrive at effective decisions that support the World Bank Group's overall objectives. The President chairs meetings of the Board or, in his absence; the Board is chaired by a senior manager of the Bank, IFC or MIGA. The Board from time to time suggests to the President, approaches that may help facilitate the Board's business. The Executive Directors believe that the Board is at its most effective when the President chairs Board meetings. When other Bank officials chair Board meetings, there should be an avoidance of officials chairing meetings that discusses that official's area of responsibility. Some Executive Directors have suggested that consideration could be given to having a Chief Operating Officer (COO) and/or deputy, who could chair the Board in the President's absence.

Proposal

The Dean will discuss with the President the issue of chairmanship of the Board.

Committees

13. Committees can be used more effectively and improvements may include the following.

- Green sheets should be issued in good time, as soon as possible following a committee meeting.
- Green Sheets should frame questions on those issues upon which there was no consensus at the Committee level.
- Submitting a document to the Board on a streamlined basis would be the preferred option. However, the Committee Chair should recommend a full Board discussion, if there is no consensus among members or at the request of at least two members and/or non-members.

- Senior management – at the VP, and MD level - should attend relevant Committee Meetings.

Proposal

SEC will work with committee chairs to reframe green sheets to focus on the issues for Board discussion.

The ongoing work on committees' terms of reference should be concluded as soon as feasible.

The target for reframing green sheets, rules for streamlining and concluding committee terms of reference revision is end FY 09.

Part II Oversight

C. Board's Oversight Role and Responsibilities

This section looks at Evaluation, Quarterly Reporting, Risk Management and Delegation of Authority.

Evaluation

- *Collective Self Evaluation - Board*
- *Strengthening the Selection, Evaluation, and Accountability of Management*

14. A number of experiences provide guidance for how evaluation might be done by the Board:

- Best practice in the private sector.
- Key points in COGAM Board Evaluation Paper (2006).
- Self assessment at the Board based on prevailing best practice (perhaps as suggested in the Familiar report, the Board would identify annual objectives at the start of the year, and do a self-evaluation at the end of the year).
- Work being considered by the IMF in this area. In October 2007, the IMF Board agreed that the Executive Board would carry out a self-evaluation and the Executive Board and Managing Director would provide each other with feedback on their respective performances on an annual basis.

15. These experiences suggest a set of principles for the conduct of such evaluations:

- The evaluations should review the Board collectively, and separately the President and Bank officers who regularly engage with the Board e.g., managers acting for the chair, and should be carried out annually;
- Focus should be on results (impact) of actions and forward looking (goals completed over a specific timeframe) and based on data;
- Client feedback, if available and relevant;
- Consideration could be given to obtaining external support/ Advice;
- Results should be discussed by the full Board, including the chair and acting chairs; and,
- The Board should discuss the Self Evaluation process in its annual retreat and the follow up to each evaluation

Proposal

SEC will provide options for an annual evaluation tool that would serve as a basis for review and consultation by COGAM by the Fall 2009 Annual Meetings.

Quarterly Reporting

16. Currently, the Board approves the annual budget and financial statements. The quarterly reports for IBRD/IDA, IFC and MIGA are reviewed in the Budget and Audit Committees some weeks (or months) after each quarter ends. The full Board does not regularly review issues arising from Committee review, or consider cross cutting trends.

17. The quarterly reports could become a useful tool for strategy and oversight and could be oriented to strengthening the Board’s focus on results. The timeliness of reporting to the Board, as well as closer coordination of the reports, would improve their usefulness, especially for assessing results in real time.

Proposal

Quarterly operational and financial reports for IBRD/IDA, IFC and MIGA should be distributed to the Board 15 days after the end of each quarter. Audit and Budget Committee discussion would take place within 5 working days after distribution. SEC will consult with Management to determine what is practical.

These quarterly reports should be scheduled for discussion together in a Board meeting within 30 days of the end of a quarter. Committee chair would summarize key issues from committee discussions and present these at a Board discussion. The Board meeting would focus on results, oversight and policy issues and would include succinct Management oral presentations on trends and issues and on upcoming issues for the current quarter. The relevant Vice Presidents and Managing Directors would be available for the Board discussion.

Outcomes on points raised in Board quarterly review discussion would be reported on in the Management presentation for the subsequent quarter. The second quarter report would become the half yearly report while the last quarterly report would become an end of year report.

Management will submit a detailed plan that could be implemented at the beginning of FY 10

Review of Risk Management Functions

18. An institutional review of the existing risk management units in the World Bank Group - IAD, IEG, Inspection Panel, IFC/MIGA CAO, INT and QAG - to assess overlaps, gaps and inconsistencies should be undertaken by the 2010 Spring Meetings. This review needs to identify the mandates of each of these units.

Proposal

Management will submit for COGAM review, a map of the mandates of the units within the risk management framework of the Bank Group. In considering this paper, COGAM should examine previous efforts, in particular the 2000 Management-led review, and propose an approach for the review which will be carried out in 2010.

Delegation of Authority

19. From time to time, the Board considers delegation of authority to management for certain tasks for which the Board is accountable. To guide any future delegation of authority, a set of principles has been proposed.

Proposal

Principles of Board Delegation

Delegation is based on assigning authority, not on devolving accountability. Thus, the Board remains accountable for the delegated tasks. Equally, authority delegated by the Board may not be further delegated. Policy making authority should not be delegated.

Delegation of authority is extended to the President, who manages the authority under the express procedures agreed with the Board, including the designation of the managers and staff assigned to carry out the authority and the levels of responsibility, and within express risk limits (quantitative or qualitative).

Delegation of authority must be clear and monitorable to ensure that accountability can be maintained, including a periodic feedback mechanism to facilitate regular monitoring on a quarterly or annual basis as appropriate for the degree of delegation.

It must be based on a matrix of decisions and positions, proposed by the President and agreed to by the Board, and reporting on an established timetable.

It must be for a fixed period, (e.g., three years), be regularly reviewed, and retractable/renewable.

20. Following Board approval, these principles will be distributed for guidance to Management across the institution.

Part III Strategy

D. Country Programs (CASs)

21. To focus the Board more at the strategic level and on results while maintaining flexibility in implementation, the Executive Directors in considering country programs (CASs, CPSs, ISNs, etc.), could give conditional approval of specific operations for which sufficiently detailed information is available. A one-year pilot of an option for conditional approval could involve:-

- When a country program is to be discussed by the Executive Directors, a country will have the option within the context of the country program to request that an annual tranche of lending operations be given conditional approval by the Executive Directors.
- The operations to be given conditional approval would be identified in the country program document, set in the context of the overall assistance program, and each operation to be given conditional approval would be described in sufficient detail for the Executive Directors to understand the operation's scope, financing and risk considerations. For instance, a suitably detailed Project Information Document (PID), which includes the results framework, for each operation would be annexed to the country program document, and the conditional approval would be based on the PID parameters. There may be modifications to the PID format if necessary, to provide the appropriate level of detail for decisions to be taken.
- The Board may decide that a particular operation or a proposed tranche is not ready or appropriate for conditional approval; in that case, the operation or tranche will be processed under regular or streamlined procedures, as appropriate.

- Selection of operations for the pilot shall be based notably on the existing streamlining criteria (BP10, Annex K) and can in no case include Category A environment projects.
- For an operation that received conditional approval by the Executive Directors, Management would clear the operation after appraisal and negotiations and the project appraisal document (PAD) would be distributed to the Board for a 10-day comment period (in the same way as is currently done for subsequent phase APLs). During this 10-day period, any Executive Director can request discussion of the operation by the Board. At the end of this period, the approval would become final unless an Executive Director requested Board discussion.
- Where an operation that has received conditional approval subsequently changes significantly in scope or financing prior to final approval, the change, in the form of a project revision, will be brought by Management to the Board for approval. If the change is approved by the Board, the final clearance procedure for conditional approvals outlined above will apply.
- Management would report annually on the status of each country program chosen for the pilot. The report would include the status of conditional approvals, and may seek conditional approvals for the next tranche of operations. Board consideration of these annual reports/advance approval requests could be grouped; for instance, for countries with small programs, in a sub-region context, or in appropriate clusters, in keeping with the proposal on greater coherence in the Board's work program.
- Examples of PID's can be found at:
<http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=40941&menuPK=228424&Projectid=P095205>

Proposal

Management will be asked to present the Board and committees with implementation proposal for the conditional approvals one-year pilot option to commence with FY10, including changes as needed in PID format.

E. Waivers

22. The Executive Directors approve all matters of policy, as well as changes and deviations from policy. As suggested by the Familiar report, waivers should occur as follows:

- A waiver of policy for a specific operation should be approved by the Board explicitly at the time that it is approving the operation in question;
- Policy changes embedded in a waiver for a specific operation or otherwise should be reviewed through the same process as for policy formulation, and proposed by Management for Board approval. For example, for a policy originally reviewed by CODE, changes would also be reviewed by CODE; and
- The Board should be advised of any waivers that have been granted under Board-approved policy, where these might exist.

Proposal

The Corporate Secretariat will submit a review of FY09 waivers to COGAM.

Management will, by the time of the fall 2009 Annual Meetings, provide a policy note for Board review of the above considerations for waivers, for the guidance of staff.

Timeline for Implementation

FY09

Immediate Principles of Delegation

end FY09 Board Meeting Practices

End FY09 Board Documentation
Board Agenda
Board Chairmanship
Committees

FY10

Begin FY10 Quarterly Reporting
Country Programs - Conditional Approval of Lending

Fall 2009 Board Self-Evaluation and Evaluation of Management

End First Half FY10 Waivers

FY10 Review of Risk Management Function