



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)



DC2011-0006
April 4, 2011

**STRENGTHENING GOVERNANCE AND ACCOUNTABILITY:
SHAREHOLDER STEWARDSHIP AND OVERSIGHT**

Attached for the April 16, 2011, Development Committee Meeting is a background document entitled “Strengthening Governance and Accountability: Shareholder Stewardship and Oversight.”

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Strengthening Governance and Accountability: Shareholder Stewardship and Oversight

I. Introduction

1. This Paper reports on the recent progress on the World Bank Group's (WBG) internal governance agenda, based on discussions in COGAM and the Board over the past five months.¹ The Paper focuses on *Shareholder Stewardship and Oversight* governance reforms. In response to the call of the Fall 2010 Development Committee (DC) Communiqué, the Board has approved proposals on (i) *Selection Process of the President* (Annex 2), and (ii) *Dual Performance Feedback* (Annex 3). The Bank also has implemented Annual Meetings Phase I reforms and made advancements on the development of the Corporate Scorecard. The Paper acknowledges that the current set of reforms, taken together, are a significant advancement in regard to improving the corporate governance and accountability culture at the WBG and are precedent setting amongst the Multilateral Development Banks (MDBs).

2. In addition, the Paper monitors the internal governance reform process in other areas, namely Board-Management Relations and Board Effectiveness, Maintaining Trust and Legitimacy, and Operational Reforms and Governance of Core Business.

3. The Paper offers a holistic view on strengthening the accountability continuum throughout various governance levels to lead to better *institutional performance and development results*. It explores the linkages within Shareholder Stewardship and throughout other area of reforms, as presented in the following sections.

II. Shareholder Stewardship and Oversight

4. The Paper presents a cohesive approach to the *Shareholder Stewardship and Oversight* area of the reform agenda that consists of four pillars: *Dual Performance Feedback*; *Selection Process of the President*; *Annual Meetings and Development Committee Reforms*; and *Corporate Scorecard*. The Dual Performance Feedback offers a new platform to facilitate continuous improvements in the effectiveness of the Board and the President. Dual Performance Feedback is complemented by utilizing the qualification criteria for candidates put forth in the Selection Process of the President. The Annual Meetings and DC reforms enhanced institutional reporting to Governors on corporate accomplishments. Underpinning these, the Corporate Scorecard will be a key input into the strategic dialogue between the Board and President and an integral part of institutional reporting to Shareholders. These processes are designed to improve the oversight and accountability framework between shareholders and the Institution and lead to improvements in standard-setting, strategic direction, and management of the WBG.

Selection Process of the President

5. In response to the DC Communiqués calling for “open, merit-based and transparent selection of the World Bank President,” the Executive Directors have approved a process for selecting the World Bank President as an important part of the governance and accountability reforms.² The Board also recognizes that due to the historic parallelism between the selection of leadership at the IMF and WBG, decisions regarding one institution will likely affect the other, and will also likely have implications for other IFIs.

¹ The current reform agenda is based on the framework established in the April 2010 report to the Development Committee, *Strengthening Governance and Accountability – Review, Results, and Roadmap* (DC2010-0007), which was further elaborated in the update to the October 2010 Development Committee, *Strengthening Governance and Accountability: An Update* (DC2010-0013).

² In July 2010, COGAM established and in December 2010 renewed an Executive Directors' Working Group to develop recommendations for the Board on improving the process for selecting the President. The Working Group produced a report approved by the Board on March 21, 2011. (See attached Annex 2).

6. The Board has regularized the selection process for the President based on the Bank's past experience and practice. The process addresses qualification criteria of the candidates; nominations; shortlisting; confidentiality; and interview and final selection.

7. The qualification criteria for the candidates also establish the context for structuring the discussion of the effectiveness of the President in achieving institutional goals in the context of the *Dual Performance Feedback* exercise, described below.

Dual Performance Feedback

8. Dual Performance Feedback (DPF) is an important part of the reforms to strengthen governance structures and the accountability framework of the WBG. The Executive Directors have agreed, in principle, to introduce a systematic DPF process for the institution, and agreed on its purpose, objectives and main principles.³

9. The Feedback system will become a part of the WBG's governance and accountability framework with the next Presidential selection round. This will be the first time that such a system is implemented in the WBG and in the MDBs. The main objective of DPF is to put in place a constructive mechanism that would lead to a more dynamic relationship between the Board and Management, to facilitate continuous improvements in governance and in the effectiveness of the Board and the President.

10. It will take time and experience to build a commitment to and understanding of the DPF process, due to a lack of directly applicable experience or benchmarks within the institution – although there is some experience at the IMF. Hence, while options are suggested, it is expected that following the next Presidential round the Board will engage with the President on establishing details of the pilot DPF process.

11. The Board and the President may wish to begin with a structured conversation on their respective effectiveness, measured against the institutional achievements as captured by the *Corporate Scorecard*. For the President, the discussion would focus on parameters established by the qualification criteria for candidates under the *Process for Selecting the President*.

The Corporate Scorecard: Focusing on Results

12. The Corporate Scorecard is designed to facilitate the strategic dialogue between the Board and Management on overall corporate performance, progress, issues, and direction.⁴ In January 2011, Management presented a prototype Corporate Scorecard to the Board, based on a results and performance framework, and is in the process of incorporating feedback received to fine-tune the indicators. The Scorecard will be an apex document and serve as one of the tools for strategic engagement with the Board on the overall performance of the Bank in the context of results.

13. The Corporate Scorecard would not only be an important tool to assess the institution's performance and results, but it would also serve as a platform for exchanging *feedback between the Board and the President* on the effectiveness of the governance structures of the Institution. The Scorecard also will become an integral part of the *institutional reporting to shareholders*.

Annual Meetings and Development Committee Reforms

14. Phase I of the Annual Meetings reforms⁵ implemented in 2010 refocused the Annual Meetings by introducing numerous substantive, structural, and technological enhancements, based on guidance from the

³ In March 2010, COGAM established and in December 2010 renewed a joint Board and Management Working Group to develop a framework for Dual Performance Feedback of the Board and the President, in time for the next Presidential selection round. The Joint Working Group produced a report approved by the Board on March 21, 2011. (See attached Annex 3).

⁴ See *World Bank Corporate Scorecard: Integrated Results and Performance Framework* (SecM2011-0007).

⁵ See *Strengthening Governance and Accountability: An Update* (DC2010-0013).

Executive Directors. The online Open Forum strengthened communication with the media, CSOs, and the private sector; attendance increased by 5.8 percent from 2008, the last time the meetings were held in Washington. Further initiatives included changing the delivery of Governors' statements, making them widely available on internal and external websites and other media; involving Governors more in the Program of Seminars; holding the IMFC and DC on the same day; and shortening the plenary session.

15. The plenary opened with the President's presentation, which focused on key corporate accomplishments, so that the Governors could assess progress with respect to corporate priorities. The enhanced reporting on *institutional performance* to shareholders is an important element of the overall *accountability framework* and shareholder oversight.

III. Board-Management Relations and Board Effectiveness

16. A constructive relationship between the Board and Management plays an important role in ensuring effective institutional governance. In this regard, the Board would continue to identify and implement measures to improve its own *performance and effectiveness*, particularly through the Self-Assessment exercise.

Board Effectiveness Reforms

17. Self-Assessment by the Board, which also captures the role of the President as a Chairperson of the Board, is an important *performance feedback mechanism*. A 2010 Pilot indicated some trends and identified important areas for reforms in the context of the *Board Effectiveness agenda*. Based on this experience, the Board would separately consider improving and streamlining the Self-Assessment exercise to provide feedback into the Board Effectiveness agenda.

18. Notable recent steps have been taken to improve Board Effectiveness. Quarterly *Steering Committee* meetings have set the stage for more strategic engagement between the Board and Management on key institutional priorities and have improved their alignment with corporate planning and reporting mechanisms. *Standing Board Committee* operations are being improved to introduce greater efficiencies and effectiveness, including setting out each Committee's relationship to Board deliberations.

Other Reform Areas

19. A review of *Delegation of Authority* was initiated to improve delineation of authority and responsibility within Management. The review was completed in January 2011. In April, staff will present a paper to Management, which summarizes the review, and which identifies areas where the Bank's current delegation of authority and decision-making processes can be improved, streamlined, and modernized.

20. The *External Review of the Oversight and Accountability Units* is focusing on how effectively the oversight and accountability units contribute to the overall governance framework and support the Board in fulfilling its oversight and fiduciary functions. It will identify redundancies, potential overlaps and best practices; reporting lines and protocols for coordination; and channels of interaction with internal and external stakeholders, to enhance oversight, accountability and efficiency/effectiveness.

IV. Maintaining Trust and Legitimacy

21. Steps for maintaining the credibility, trust, and institutional accountability of the WBG include improved voice and participation of developing and transition countries (DTCs), Staff Diversity, and Nationality of Focus Initiatives.

22. Phase II of the Voice reforms was approved by the Governors on March 16, 2011, leading to a developing and transition countries increase in IBRD of up to 3.13% , bringing it to 47.19%. This represents a total shift of 4.59% to DTCs since 2008. IFC Voice reform, which is with the Governors for approval, will increase basic votes, representing a total shift of 6.07%, to bring DTC voting power to 39.48%.

23. The World Bank's new *Access to Information (AI) Policy* became effective on July 1, 2010. The AI Policy states that certain groups, because of the confidential nature of the information they possess or the independent role they play within the Institution, would develop their own disclosure regimes.⁶ Based on this, the Integrity Vice Presidency (INT) and the Independent Evaluation Group (IEG) have prepared their own disclosure policies. INT's policy is under implementation while IEG's policy is under revision and will be submitted to the Board for approval. In addition, the relevant Board committee has considered specific public requests for disclosure of Board records, and is putting mechanisms in place to deal with such requests.

V. Operational Reforms and Governance of Core Business

24. A number of operational reforms are underway to improve the Board's ability to exercise its fiduciary and oversight role. These reforms are designed to create greater efficiency and effectiveness in Management and the Board's respective roles in leading the Institution.

25. Progress continues to be made on the risk-based approach to *investment lending*, as discussed in detail in the parallel DC Paper, *Modernizing the World Bank Group: An Update*, which strengthens management accountability, and improves risk management by focusing on high-risk operations. In December 2010, the Board approved IFC Management's modification of *IFC's Streamlined Procedure* to include routine, low-risk investments, *effective January 2011 with an 18-month pilot phase and a subsequent review period*.

26. *End-fiscal year bunching of lending deliverables* refers to the share of number of projects submitted to the Board in the final quarter of the fiscal year. Management is addressing *bunching* through an earlier planning process and better allocation of lending deliverables across the fiscal year.

VI. Summary and Next Steps

27. This Paper outlines Board-approved proposals on the *Selection Process of the President and Dual Performance Feedback*. It then reports on implementation of previously approved proposals on Annual Meetings Phase 1 reforms and the Pilot Self-Assessment of the Board. The Paper also provides an update and monitors progress on other areas of the Bank Group's internal governance agenda, namely Board-Management Relations and Board Effectiveness, Maintaining Trust and Legitimacy, and Operational Reforms and Governance of Core Business.

28. The paper demonstrates the Board and Management's ongoing commitment to innovation in WBG governance. Annex 1 sets out a roadmap of actions that will take place in the coming weeks and months to continue to advance the WBG governance reforms. These actions, taken together, will contribute to the effectiveness of the Board and Management and improving the institution's corporate governance culture.

⁶ *Towards Greater Transparency through Access to Information: The World Bank's Disclosure Policy* (December 2009).

Next Steps on the Governance Agenda

Executive Directors intend to discuss the following over the next six months:

- *Annual Meetings Phase II Reforms.* Building on the Phase I reforms, implemented in 2010, consideration of further reforms as Phase II will focus on further modifications and improvements, based on areas previously indicated in governance papers and reflecting on discussions at the Board.
- *Development Committee.* Discussions of reforms in regards to the Development Committee will benefit from the experience of preparing and conducting the Spring 2011 meetings and, as above, will focus on areas previously indicated in governance papers and reflection on discussions at the Board.
- *External Review of the Oversight and Accountability Units.* Executive Directors will discuss the Report in May and consider recommendations to be implemented.
- *Board Effectiveness.* Executive Directors will continue discussing possible improvements for the next Board Self-Assessment and actions identified in the Pilot in late-FY11/early FY12.
- *Corporate Scorecard.* Management is revising the Scorecard based on inputs from Executive Directors and will present the first fully operational version towards the end of FY11.
- *Investment Lending.* A draft approach paper by Management on reforming the investment lending policy framework will be discussed by the Board in early FY12.
- *Access to Information (AI) Policy.* Executive Directors will consider issues pertaining to Board records, in the context of the AI Policy's year-end progress report.

The Board will monitor the implementation of the following items on the reform agenda:

- *Selection Process of the President.* The selection process of the President will be implemented for the next Presidential selection round.
- *Dual Performance Feedback.* Dual Performance Feedback will be integrated into the next Presidential selection round.
- *Review of Delegation of Authority.* The Executive Directors will be provided with an update before end-FY11.
- *Modifications to IFC Streamlined Procedure.* Executive Directors will monitor the 18-month pilot phase, to be followed by an independent review of the performance of Expedited Streamlined Procedure.
- *End-fiscal year Bunching.* Executive Directors will monitor Management's planning process and allocation of lending deliverables across the fiscal year.

Report on the Selection Process of the President

1. In response to the DC Communiqués calling for “open, merit-based and transparent selection of the World Bank President” (April 2010) and “with nominations open to all Board members and transparent Board consideration of all candidates” (Oct 2008) an Executive Directors’ Working Group¹ (WG) was established by COGAM to develop recommendations for the Board on improving the process for selecting the President of the World Bank Group (WBG), including the Managing Directors and heads of IFC and MIGA, as an important part of the work on improving governance and accountability.
2. During the process of deliberations, the WG did a stocktaking of the existing and past processes of selecting WBG Presidents, Managing Directors, the heads of IFC and MIGA as well as top leadership at the IMF and other International Financial Institutions (IFIs).
3. In addition, the WG recognized that the dual role of the President of the WBG as the Chief Executive and the Chairman of the Board of Executive Directors has an impact on the selection process. Given the historic parallelism between the selection processes of the WBG and IMF, the WG recognized that decisions of one institution likely will affect the other. This also likely will have implications for other IFIs.
4. The Board of Executive Directors approves the recommendations contained in this report.

World Bank President

5. After reviewing past selection processes at the Bank, the Fund and other IFIs, together with the recommendations provided in previous leadership reviews at the Bank and the Fund (*2001 Joint Report of the Working Groups on Leadership Selection Process*), the Working Group recommends the following principles and improvements to guide the existing selection process:

- (i) **Qualification Criteria:** The World Bank Articles are silent on qualifications for the President position. The President is appointed by the Executive Directors, under whose direction (s)he will fulfill his or her responsibilities. The Working Group proposes that the Board establish clear criteria for identifying, nominating and selecting the candidates for the post. The WG considered previous criteria used during the 2007 selection process as well as other qualifications previously discussed by the Board and used in past selection processes, and proposes the following provisions:
 - A proven track record of leadership;
 - Experience managing large organizations with international exposure, and a familiarity with the public sector;
 - Ability to articulate a clear vision of the Bank’s development mission;
 - A firm commitment to and appreciation for multilateral cooperation; and
 - Effective and diplomatic communication skills, impartiality and objectivity.
- (ii) **Nomination Process:** The Bank’s Articles provide that the Executive Directors have the power to select (and dismiss) the President by a simple majority, and that the President may not be a Governor or an Executive Director of the Bank or an Alternate.² The Articles are silent on specific formal

¹ From July-October 2010, the WG was comprised of the following members: Ms. Brandt (Chair), Mr. Solomon, Mr. Yang, and Mr. McIntosh. The WG was reconstituted in December 2010 as follows: Mr. Manao (Chair), Ms. Brandt, Ms. Mokate, and Mr. Solomon. Samir Suleymanov (Manager, SECVP), Federico Baechli (Operations Officer, SECPO), and Natalia Danilova, (Consultant, SECPO) undertook Secretariat responsibilities for the Working Group.

² IBRD Articles of Agreement, Article V, Section 5 (a).

selection procedures for the President. Executive Directors can nominate candidates for the Board's consideration. Candidates have to be nationals of the Bank's membership. In the context of enhancing governance and accountability, the WG acknowledged that Governors may nominate. This should be carried out through the respective Executive Director. In making this determination, the WG took into account the IBRD Articles of Agreement, Article V, Section 5: "*The Executive Directors shall select a President who shall not be a Governor or an Executive Director or an Alternate or either.*" (Emphasis added.) The WG recommends that the length for the nomination period be clearly defined and communicated by the Board of Executive Directors in the context of a particular selection process, thereby allowing the length of the period to be determined on the basis of relevant circumstances.

- (iii) **Shortlisting Process:** The WG recommends a shortlisting process in circumstances where the number of candidates exceeds three. The WG recommends that the shortlisting process be implemented through an informal straw poll process to determine which candidates received the most support among Directors, prior to a formal voting.³ After consultation with their authorities, the Executive Directors would agree on a final shortlist, and on the modalities for public disclosure.
- (iv) **Confidentiality:** Experiences from prior selection processes at the Bank and other IFIs are supportive of maintaining confidentiality during the nomination process as long as possible to ensure that as many suitably qualified nominees as possible would agree to present their candidacies for consideration. Accordingly, the WG recommends the following:
- Nominations would be held in confidence by the Corporate Secretary until the end of the nomination period.
 - At the end of the nomination process, the Corporate Secretary would provide to the Board of Executive Directors a list of those nominees who have confirmed their interest in being considered as candidates. This list would be held in confidence by the Board of Executive Directors, although it is recognized that the nominating Governor or Executive Director may disclose the identity of the candidate they have nominated (such disclosure would neither be confirmed nor denied by the WBG).
 - Once the Board arrives at a shortlist of candidates, the WBG would publish the names of those shortlisted candidates, with their consent.
- (v) **Interview and Final Selection:** The WG recommends that formal interviews by the Board of Executive Directors be conducted for all shortlisted candidates with an objective to select the new WBG President by consensus. The preparation of issues to be covered in the interviews by the Board would be determined on the basis of the relevant circumstances of a particular selection process. The Board would then meet to make the final selection. Although the Board of Executive Directors may select a President by a simple majority of votes cast, the objective of the Board of Executive Directors is to select the President by consensus, which could be achieved through an informal straw poll process prior to the formal vote.

6. The WG notes that its mandate to develop recommendations for strengthening the selection process of the President is linked to the ongoing work on reforms to the WBG's internal governance structures (e.g. Dual Performance Feedback) to improve governance and accountability.

³ The Board would convene under the existing Rules of Procedure for Meetings of the Executive Directors, see Section 2(f): "In the event that a meeting of the Executive Directors shall be convened to consider the appointment of the President or the terms and conditions of his service contract or any matter relating thereto, or under other such exceptional circumstances in which the President shall have determined that it would be inappropriate either for him or for a Managing Director so to act, an Executive Director selected by the Executive Directors shall act as Chairman. An Executive Director so selected shall retain his right to vote when serving as acting Chairman."

Managing Directors and Executive Vice Presidents of IFC and MIGA

7. The WG considered the selection processes for the Managing Directors and the Executive Vice Presidents of IFC and MIGA.

Managing Directors

8. The WG recognizes that Bank Managing Directors (MDs) are members of Bank staff and are appointed by the President. The Board of Executive Directors has been consulted in the selection of MDs in the past, but the consultations have been ad hoc and uneven.

9. In 2005, a detailed job description for the Managing Director position was developed and the WG is of the view that this job description is appropriate. The WG recommends strengthening the selection process for the MDs through more involvement of Executive Directors through consultations with the Board.

IFC Executive Vice President

10. The IBRD President has invariably been appointed as IFC President. The President appoints the Executive Vice President (EVP) to head IFC. The WG recommends strengthening the practice of engagement and consultations with Executive Directors in this process. The EVP acts as Chief Executive Officer and general manager of the Corporation and is responsible for overall management and for conducting the day-to-day affairs. The EVP allocates management responsibilities within IFC and, in the absence of the President, the EVP chairs the IFC Board of Directors.

11. The Working Group believes that the following qualities should be taken into consideration by the President when appointing the EVP of IFC:

- Proven track record of leadership and/or senior level positions in large organizations with international exposure;
- Effective management, communication and diplomatic skills;
- Experience in the private sector, emerging markets, and financing; familiarity with the public sector;
- Ability to articulate a clear vision of IFC's development mission in promoting sustainable private sector development.

MIGA Executive Vice President

12. The IBRD President also has invariably been appointed as MIGA President. The President appoints the Executive Vice President (EVP) to head MIGA. The WG recommends strengthening the practice of engagement and consultations with Executive Directors in this process. The EVP acts as general manager of the organization and is responsible for overall management and for conducting the day-to-day affairs. The EVP allocates management responsibilities within MIGA and, in the absence of the President, the EVP chairs the MIGA Board of Directors.

13. The Working Group believes that the following qualities should be taken into consideration by the President when appointing the EVP of MIGA:

- Proven track record of leadership and/or senior level positions in large organizations with international exposure;

- Effective management, communication and diplomatic skills;
- Experience in the private sector, risk management and emerging markets; familiarity with the public sector;
- Ability to articulate clear vision of MIGA's development mission in promoting foreign direct investment in developing countries

Report of the Working Group on Dual Performance Feedback of the Board and the President

INTRODUCTION

1. Dual Performance Feedback (formerly, “dual evaluation”) is an important part of the reforms to strengthen the internal governance structures and the accountability framework of the World Bank Group (WBG)¹ and has been a part of the internal governance agenda since 2002.
2. The Working Group (WG) was charged with developing a framework for the dual performance feedback (DPF) of the Board and the President by addressing the purpose and objectives of the dual performance feedback process and setting out recommendations for consideration by COGAM and, thereafter, the Board.² It was agreed that the feedback process for the President would be developed in time for the next presidential selection round.³
3. The Board of Executive Directors approves the recommendations contained in this report.

PURPOSE OF THE REPORT

4. The *purpose* of the Report is to seek the approval by the Executive Directors, in principle, to introduce a systematic Dual Performance Feedback process for the Institution, and to agree on the objectives and main principles for such a process.
5. The Feedback exercise is to become a part of the WBG’s governance and accountability framework with the next President for the first time in the WBG but also amongst the Multilateral Development Banks (MDBs). It is recognized that there is no directly applicable best practice, experience or benchmark within the Institution on which to rely, although there is some experience at the IMF.
6. Thus, the recommendations focus on main principles and provide only suggestions on how the Feedback process can begin, without being too prescriptive. This is provided with the understanding that the details of the process need a level of flexibility to allow for the Board to engage with the new President on the establishment of a suitable DPF process. In this respect, the report provides options on how to engage the new President and alternatives that may be considered as the process begins and evolves. It is expected that, as experience is gained and trust towards the validity of the exercise is built, the process will develop into a more mature format over time.
7. It is acknowledged that agreement in principle to introduce such a Feedback process is of great value in itself and is also a big step towards strengthening the WBG accountability framework, as it would represent the continuous improvement of the governance of the institution by setting out an explicit expectation from the Board and the President. It is also recognized that the introduction of the feedback process comes through a natural evolution of ongoing governance discussions and reforms at the WBG, as a constructive, forward looking, and positive development.

¹ See *Strengthening Governance and Accountability* (DC2010-0007), 2010 Development Committee meeting.

² See *Attachment* for background on the process leading to this Report.

³ See *Strengthening Governance and Accountability* (DC2010-0007)—April 2010 Development Committee meeting, and *Strengthening Governance and Accountability* (DC2010-0013)—October 2010 Development Committee meeting.

OBJECTIVES AND MAIN PRINCIPLES OF THE DUAL FEEDBACK PROCESS

8. The main *objective* of Dual Performance Feedback of the Board and President is strengthening corporate governance. Specifically, the exercise should be a constructive mechanism that leads to dynamic improvements in governance and enhances the effectiveness of the Board and the President, particularly in regard to oversight, strategic directions, and management of the WBG. The exercise should help bring about performance improvement and is also intended to encourage a more productive and smooth working relationship between the Board and the President/Management. Transparency is fundamental to such an assessment of performance of the Board and the President and will be based on frank discussions about expectations and outcomes.

9. To effectively meet the abovementioned objectives, the framework for DPF should be based on the following broad *principles*, which are in line with applicable best-practice:

- *Simple*, sufficient to help identify needed improvements.
- *Governance improving*, not taking the governance arrangements as a given.
- *Balanced* in applying the process to both the Board and the President.
- *Confidential* both in process and outcome, to establish and maintain reciprocal trust.
- *Actionable* to contribute to the improved performance of the parties.
- *Forward looking* and thus performed at regular, mutually agreed intervals.
- *Credible* for all parties involved.

10. The proposals for a Feedback process were prepared taking into account the unique nature of the WBG and the expectations that the process should be simple, flexible, and informal. Accordingly, the framework presented is intended to be constructive, practical and sensible, rather than “scientific.” Given the novice nature of the exercise, expectations are that it will provide a certain degree of flexibility during implementation and as further adjustments are made.

BROADER CONTEXT OF GOVERNANCE AND ACCOUNTABILITY REFORMS

11. The Feedback exercise needs to be also viewed in the broader context of other ongoing reforms of the corporate governance. It ties together all four pillars of the *Shareholder Stewardship* area of the governance and accountability reforms: *Dual Performance Feedback; Selection of President; Annual Meetings and Development Committee Reforms; and Corporate Scorecard*. It also relates to overall Board Effectiveness agenda.

12. The proposed approach to the Feedback process *builds on two of the pillars* - the Corporate Scorecard and Presidential Selection, as discussed in the following sections. It focuses on governance practices between the Board and the President in order to seek improvement in *effectiveness of the WBG corporate governance structure*.

13. Two additional mechanisms capture other aspects of the feedback on the performance of the top governance structures of the institution. One is *reporting of the President to shareholders* at the Annual Meetings and discussions with the Development Committee – an area for parallel governance reforms. Another is a process for *Self-Assessment of the Board*, which also captures the role of the President as Chairperson of the Board, in the context of the continuous Board Effectiveness agenda that feeds into ongoing governance discussions.

14. Taken together, these processes would provide a coherent approach to improve the oversight and accountability framework between shareholders and the institution. They would strengthen corporate governance and mutual accountability and would lead to improvements in oversight, standard-setting, strategic direction, and management of the WBG. As with all of the reforms, these processes need to be

sufficiently flexible to integrate future improvements in accountability to shareholders and institutional performance.

SUGGESTIONS FOR THE INITIAL DUAL PERFORMANCE FEEDBACK PROCESS

15. The recommendations for the Dual Performance Feedback process are based on the purpose, objectives and principles outlined in the sections above.

16. The option for DPF could entail a *structured conversation between the full Board and President* on their respective effectiveness, measured against the institutional achievements as captured by the Corporate Scorecard. The DPF meeting would take place in a closed-door session of EDs and the President and would focus on discussing performance against the agreed parameters and how corporate governance can be more effective in achieving results.

17. Consideration may be given to other options, including:

- A series of structured conversations between the President and small groups of EDs that would include all members of the Board; or
- A structured conversation between the President and one small group of EDs.
- Following the conversation(s), a confidential note or communication in the form of minutes or a summary could be prepared, possibly by SEC, recording that the process has occurred.

18. It is acknowledged that the new President may have constructive ideas or suggestions to be taken into account for the DPF process. The full Board or a sub-group of EDs could engage the new President to establish the process for DPF.

Scorecard and Institutional Performance

19. The Corporate Scorecard, which is based on a results and performance framework, will become an integral part of the institutional reporting to shareholders. The Scorecard would be an important input for a discussion of the institution's performance and serve as a platform for exchanging feedback between the Board and President on the effectiveness of the governance structure of the institution, essential to achieving the results as captured by the Scorecard. The Scorecard will be an apex document and serve as one of the tools for strategic engagement with the Board on the overall performance of the Bank in the context of results.

Performance of the Board

20. Executive Directors (EDs) in the WBG perform dual functions – as officers of the WBG and as representatives of the member country or constituency. The Board process may focus on the functions of the Executive Directors collectively as officers of the WBG, bearing in mind that EDs are balancing this with constituency responsibilities.

21. After considering various options for Performance Feedback on the Board (feedback on individual members, committees, committee chairs; self-evaluation vs. external evaluation and / or management views on the Board), it is suggested that the performance of the Board be carried out on the Board as one unit. It also recognized that an important performance-improving exercise should be carried through in parallel through a Board Self-Assessment Survey that feeds into Board Effectiveness discussions as part of the overall Governance agenda of the WBG.

22. For the purposes of the DPF Meeting, it is suggested that *the areas for discussing the performance* of the Board in assessing its effectiveness in achieving institutional results are the following:

- Effectiveness of the Board in balancing *Fiduciary & Representative Roles* in focusing on strategic issues, approving lending and discussing operational strategies, and providing oversight;
- Effectiveness in providing strategic leadership to the institution;
- Dynamics of the Board meetings;
- Effectiveness of committee work and avoiding overlaps between committees and duplicate discussions;

Performance of the President

23. The President performs two distinct functions as CEO of the organization (both managing the day-to-day operations of the WBG and representing the WBG vis-a-vis external stakeholders) and as Chairperson of the Board. The function of the Chairperson of the Board is delegated at times to accommodate the President's travel schedule and the fulfillment of his other functions. The role of the President as Chairperson of the Board is also captured in the Board Self-Assessment exercise mentioned above.

24. The scope of the performance of the President for the feedback process would also capture the effective management of the 'management team', and performance of top management. In addition, the performance of the President should be considered in the broader context of institutional performance--in the context of enhanced shareholder stewardship. The performance feedback process for the President will have to be incorporated in the Terms of Appointment of the next President. It is also recognized that any such performance feedback for the President in the future should avoid creating a perception of undermining the status of the office of Chief Executive and spokesperson of the institution.

25. The following are the broad *areas for exchanging views on the performance of the President* in leading the institution towards achievement of results captured by the Scorecard. These areas correspond with the qualification criteria for the President, put forth in the Report on Selection of the President, and offer a level of symmetry between the tasks of the two working groups. The areas are:

- Leadership as Chairperson of the Board and CEO.
- Managing the organization and operations, formulating policies.
- Providing a strategic vision, advancing the WBG's mandate.
- Commitment to multilateral cooperation and the development agenda;
- Communicating with stakeholders.

REPORTING TO SHAREHOLDERS

26. As mentioned above, additional mechanisms for a broader performance feedback process include institutional reporting to shareholders. In Phase 1 of the Annual Meetings reforms, the Plenary session was advanced to open the Meetings with a presentation by the President, focused more specifically on corporate accomplishments so that Governors could better assess the activities of the WBG. The President also reports on specific items, priorities, and objectives to the Development Committee, which has a role in guiding the activities and outcomes of the institutions. Assessment of this experience and further streamlining and improvements in regard to accountability to shareholders for institutional performance and results will be considered in the context of those reforms. Additional modification and streamlining of the Annual Meetings and Development Committee Meetings could further enhance the opportunities for shareholder guidance and institutional accountability.

SELF ASSESSMENT BY THE BOARD

27. The Board has conducted surveys among the members of the Board since 2002. In the fall of 2010, another Board survey was carried out for outgoing EDs. In addition, a Pilot Self-Assessment of the Board took place in October 2010, before the end of the previous term amongst Executive Directors and Alternates, with a final participation rate of 38%. The Pilot self-assessment of the Board presented several lessons learned for future performance feedback processes of the Board and indicated some trends, despite the low response rate.

28. Responses from participants identified various areas for improvement. Many of the areas identified for improvement related to Board effectiveness and were analogous to those highlighted and discussed at the Board induction program. The discussion at the induction also has led to further consultations, which, in turn, are expected to further feed into the Board Effectiveness reforms. Based on this experience, the *Board would separately consider improving and streamlining the self-assessment exercise* to provide continued input and feedback into Board Effectiveness agenda. This would include capturing the feedback of the selected management members (such as the Managing Directors and the Executive Vice Presidents of IFC and MIGA) as part of the self-assessment, and improving the process for conducting and discussing the outcomes. This parallel and important process is within the overall framework of performance feedback on the governance structures, and also captures the function of the President as the Chairperson of the Board.

PROCESS FOR IMPLEMENTATION

Administration of the Dual Performance Feedback Process

29. The Performance Feedback process for both the Executive Directors and the President would be facilitated by SEC within the framework of COGAM's work program.

30. Following the next presidential selection round, this should happen annually, starting in July and finishing well in advance of the Annual Meetings. An annual process would enhance follow up and establish a feedback-loop, including offering timely assessments of the effectiveness of remedial actions developed in response to previous performance feedback.

Recognizing and Mitigating Risks

31. The Working Group notes the risks involved in a performance feedback exercise. In particular, because the exercise involves governance actors at the top of the institution, it is essential that the framework be *strictly confidential* and available only to the parties involved. Inadvertent leakage of information can lead to reputational and credibility risks for the WBG, its Board, and its President. Institutionalization of the framework and carefully and clearly laying down the procedures to be followed would help to mitigate this risk. Annual, close supervision and monitoring of the implementation process would be essential.

32. In order to avoid an unpleasant, mechanical, and self-serving process, a carefully planned and designed system must be in place that has full buy-in from all parties. Implementation needs to be well done with a full follow-through mechanism and feedback loop.

33. Another risk is that the process could get mired in statistical detail, that it could become bureaucratic, and that the process itself could dominate the substance. This can be mitigated by maintaining focus on the basic objectives and on the basic and broad functions of the Board/President, and by keeping the process simple.

ATTACHMENT

BACKGROUND OF THE REPORT

The Working Group on Dual Performance Feedback of the Board and President¹³ was first established by COGAM at its meeting on March 8, 2010, as a joint WG between the Board members and management. The Board members of the WG produced a “Report of the *Board Members* of the Working Group on Dual Performance Feedback of the Executive Board and the President” to COGAM on September 20, 2010. COGAM endorsed the report as an important input to the continued work on the framework for dual performance feedback. COGAM also endorsed, and the Board approved, a proposal to pilot the Board self-assessment aspect of the dual performance feedback process before the end of the 2008-2010 term of the Board. It was agreed that experiences from the pilot would be taken into account in further development of the comprehensive feedback system, which may later involve engaging external experts in the design of the questionnaires and tools for the exercise.

The Committee recommended renewing the joint Board-Management Working Group in the Board’s next term to continue the work. COGAM reconstituted the Working Group¹⁴ on December 17, 2010, with the expectation to produce a report containing recommendations towards the 2011 Spring Meetings, as noted in the Fall 2010 Development Committee (DC) Communiqué.

The Working Group wishes to reiterate that a performance feedback system for the Board and the President has never been established before for international organizations such as the WBG and RDBs. The WG reviewed evaluation frameworks of other organizations,¹⁵ and notes that there are no IFI precedents on which to rely or build, with the exception of the single pilot evaluation conducted by the IMF in 2008. The IMF example was experimental in nature and was not repeated. It was based on informal meetings between the Executive Directors and Managing Director, and focused primarily on internal processes. The WG reviewed similar processes in the private sector. Although the private sector experience is not directly applicable, the WG relied on best practices in suggesting the main principles of the performance system.

¹³ Working Group was comprised of: Board members – Messrs. Chatterji (Chair), Contreras, Hofmann, and Shikibu (until relinquishment of his duties as ED); Management members – Ms. Robbins (Vice President and General Counsel, IFC) and Messrs. Bond (Chief Operating Officer, MIGA), Gutman (formerly, Vice President and Head of Network, IBRD, replaced by Adams (Regional Vice President, IBRD). Samir Suleymanov (Manager (SECVP)) and Federico Baechli (Operations Officer [SECPO]) undertook Secretariat responsibilities for the Working Group.

¹⁴ The Working Group was reestablished as COGAM, functioning as a working group – Mmes. Garcia, Mokate and Moorehead, and Messrs. Hagan, Manao, Mordasini, Talat and Yang (Chair). Management members – Ms. Robbins (Vice President and General Counsel, IFC) and Messrs. Bond (Chief Operating Officer, MIGA), and Adams (Regional Vice President, IBRD). Samir Suleymanov (Manager [SECVP]) and Federico Baechli (Operations Officer [SECPO]) undertook Secretariat responsibilities for the Working Group.

¹⁵ In preparing this report, the WG was provided with background information from the Corporate Secretariat on experience in the private sector, non-profit sector, and multilateral financial organizations, and studied the evaluation process introduced in the IMF. The WG also reviewed the previous relevant Board papers on this matter.