Repowering the World Bank for the 21st Century

Report of the High-Level Commission
on Modernization of World Bank Group Governance

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Acronyms and abbreviations

DC	Development Committee
EVP	Executive Vice-President
GNI	gross national income
GPG	global public good
HIPC	heavily indebted poor countries
IBRD	International Bank for Reconstruction and Development
ICSID	International Center for the Settlement of Investment Disputes
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
MDB	multilateral development bank
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Reduction Initiative
MIC	middle-income country
MIGA	Multilateral Investment Guarantee Agency
OECD	Organization for Economic Cooperation and Development
WTO	World Trade Organization
UNDP	United Nations Development Program

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Executive summary

Recent events have highlighted—again and painfully—how important it is in the enlightened self-interest of countries to cooperate with each other . The imperative of realizing the full benefits of globalization while managing its costs and risks—added to the need to close long-standing international development gaps—is a powerful reason to be more supportive of multilateral institutions. Under pressure from the global economic crisis, a new dialogue has emerged in various forums, including the G20, where the pursuit of more cooperative approaches to common challenges is gaining some ground. Reforming the World Bank so it can meet the challenges it is likely to confront in the early 21st century should be a key part of that endeavor.

More than sixty years after its founding, the World Bank Group ("WBG," "the Group," or "World Bank") occupies a central place in the global multilateral architecture. Thanks to key strengths that comprise its comparative advantage—among them, its capacity to raise and channel resources for development, its stock of cross-country development knowledge, and its highly trained staff—the organization has made vital contributions to human welfare. As a result, the World Bank Group is widely seen as relevant today and as a potentially highly valuable instrument for addressing global development challenges in coming decades.

The world will expect more from the World Bank Group in the future. The institution will likely be asked to take on a more active role in helping the membership address crucial global challenges, including those involving global public goods. Some of these challenges are likely to be unprecedented in their urgency and complexity. The World Bank Group is strongly positioned to help its members meet these challenges, to catalyze cooperative approaches to tackle them, and to help design and finance multilateral solutions.

But the World Bank will not be able to perform this role effectively unless it deals with key institutional weaknesses that undercut its many strengths. Current mechanisms for strategy formulation are not adequate for setting priorities and guiding operations. Mission creep is endemic, weakening accountability for results and increasing the risk that resources will be misallocated or spread too thin, undermining the institution's effectiveness. The Group's decision-making process is widely seen as too exclusive, offering many member countries too little voice and too few opportunities for participation. Insufficient institutional accountability for results weakens the World Bank's effectiveness and legitimacy. And certain conventions and practices have contributed to the perception that the institution is accountable and responsive only to a handful of shareholders at best. These weaknesses spring in large measure from the fact that the World Bank's governance—forged in the 1940s—has not kept up with historical change and today is not adequate to deal with global problems that require forward-looking, flexible, inclusive, and legitimate multilateral institutions.

Equipping the World Bank Group to meet the global challenges of the 21st century requires rethinking the institution's governance arrangements. By "governance" we mean the set of formal and informal structures, conventions, and rules that determine how an organization is steered and how its decision-making processes work.

Summary findings

The World Bank Group's existing governance structure has several strengths. The principle of representing member countries in the organization's governing bodies through constituencies provides a useful mechanism for balancing representation and decision-making efficiency; the use of constituencies has allowed the World Bank's membership to quadruple without paralyzing decision making. Also, the link between shareholding and voting provides, at least in principle, a relatively flexible system that allows the allocation of voting power to adapt to changing conditions.

However, the Commission found important shortcomings in three areas of the Group's governance: strategy formulation, voice and participation, and accountability.

Strategy formulation

The World Bank Group's current governance arrangements do not support an adequate strategy formulation process:

- Though the Group regularly produces a constant stream of "strategic" documents, the institution currently lacks effective means to formulate a clear strategy that can be used to set priorities, balance tradeoffs, and align operations and resources with strategic goals. In addition, there are no mechanisms through which the shareholders can engage meaningfully in strategy formulation at the appropriate level of seniority; the Development Committee and the Executive Board[1], as currently structured, lack the capacity to play this role effectively.

- The Development Committee's role in strategy formulation is constrained by its advisory nature, its limited tools for monitoring implementation of its communiqués, and the *pro forma* nature of its meetings, which reduces opportunities for frank and open exchanges among the Committee members. The legitimacy of the Committee, like that of the Executive Board, is undermined by imbalances in voice and participation.

- The Executive Board's role in strategy formulation is limited by the fact that neither the Board nor individual Directors are formally held responsible for the World Bank Group's overall strategic direction. Also, given the Board's many other responsibilities, the body has insufficient time to devote to strategic matters. The relative lack of political seniority of many Executive Directors and the insufficient clarity as to where strategy-setting responsibility lies may allow the President to

[1] IBRD, IDA, IFC, and MIGA each have their own boards. In practice, however, the boards comprise virtually the same people, so that the bodies are best understood as a single Executive Board that meets in different guises, depending on the issue being discussed.

sideline the Board in matters of strategy formulation. Finally, with 25 chairs[2], the Board is too large to serve as an effective strategy-setting and decision-making body.

- Strategies generated by Management tend to be overlapping and all-encompassing, rarely providing effective operational guidance or a framework for making judgments about priorities. Instead, strategy documents are designed to find drafting solutions that accommodate all interests. Decisions of strategic significance are then left to Management, to be made as part of the organization's day-to-day business. This reduces shareholder involvement in strategic decisions and prevents the transparent management of tradeoffs.

Voice and participation

The Commission identified several concerns regarding the allocation of voting power and decision-making arrangements in several arms of the Group:

- In the International Bank for Reconstruction and Development (IBRD), the share of basic votes in total voting power has eroded significantly since the Bank's inception, when basic votes accounted for almost 11 percent of total votes. This has primarily affected the voice and participation of the Bank's smallest and poorest members. Despite a recent decision to increase basic votes from the current 2.86 percent to a fixed level of 5.5 percent of total voting power, this level remains low by historical standards and relative to those in other multilateral development banks. The same concern holds true for the International Finance Corporation (IFC), where the share of basic votes has eroded from 12.28 percent to just 1.82 percent today.

- In the IBRD and IFC, the shareholdings and voting power of some countries appear too small relative to their weight in the global economy. A related problem is the historical linkage between IBRD (and IFC) shareholding and International Monetary Fund (IMF) quotas. Certain indicators that are used to calculate quotas at the IMF—a country's level of economic openness, variability of capital flows and the current account, and levels of international reserves, in particular—are of questionable relevance to the World Bank, whose mandate and mission differ from the IMF's.

- There are currently no automatic and periodic reviews of shareholding in the IBRD. This deprives the Bank of a dynamic mechanism to ensure that shareholding and voting power allocation adapt relatively smoothly to changing conditions. The current system inevitably and periodically gives rise to "voice gaps" that must then be mitigated through *ad hoc*, highly politicized, and usually divisive negotiations.

- In the IBRD and IFC, a significant gap remains between the voting shares of developing and developed countries as groups, even though there are strong grounds to argue that a broad principle of equity between both groups of countries

[2] The Board of Governors has approved the addition of a 25th chair to the Executive Board in 2010.

ought to govern the allocation of shares and voting power, as it does already in other arms of the Group.

- The allocation of voting power and the special majority that is required for amending the Articles of Agreement give rise to the so-called "U.S. veto," which, aside from its practical implications, contributes to the widespread sense that the institution is dominated by its largest shareholder.

- In the International Development Association (IDA), the existing system of allocating voting power based on cumulative contributions is problematic. Currently, contributions are not discounted for their time value, so that contributions made, for example, in 1960, and those made in the latest round of IDA replenishment confer the same degree of voice on the Board. Yet, historical contributions provide less funding for IDA today because nominal reflows on IDA's highly concessional loans are gradual and lose financial value over their 40-year repayment period. The arrangement falls short on fairness grounds and does little to encourage new contributions.

- The arrangement whereby the IDA Deputies effectively have a final say on substantive decisions concerning IDA and sometimes exert influence on IBRD policy raises governance concerns, as it reduces transparency and accountability by circumventing the WBG's formal governance structures.

Several concerns were identified regarding the composition of the Board of Executive Directors:

- European countries appear to be considerably overrepresented in terms of the number of chairs they occupy in the Group's Executive Boards. Depending on rotation schemes, European countries occupy eight or nine chairs at any given time—32 or 36 percent of the chairs in the 25-chair Board. The large number of chairs from a single region is a historical legacy that no longer seems appropriate for a global institution and a transformed global economy. While some European countries remain generous donors to IDA, it is not clear why this should translate into chairs in the IBRD, IFC, and MIGA boards. The larger problem is the absence of transparent and fair principles to govern the distribution of chairs on the Board.

- Certain Board constituencies are overcrowded: while eight Executive Directors represent only one country each, Directors at the other end of the spectrum represent about 16 countries each. This is significant because the larger the constituencies, the weaker the voice of each member and the fewer the opportunities to participate in decision-making. Compared to other international organizations with similar memberships, the World Bank has a large average constituency size.

Accountability

- The division of labor between Board and Management in the WBG is ambiguous. In some instances, disputes emerge over whether a particular decision is Management's to recommend and the Board's to approve or turn down, or whether it falls under the Board's prerogative to direct the President. This ambiguity makes it difficult to ascertain who is responsible and who should be held accountable.

- The Board shares a managerial role with the President and therefore cannot hold him or her accountable in many areas without also passing judgment on its own performance. This gives rise to a conflict of interest that compromises the Board's capacity to carry out effectively its oversight function.

- The President's role as chairman of the Executive Board creates a conflict of interest, absent proper mechanisms to ensure that the Board can act independently and override the chairman, when necessary. The conflict of interest is especially pronounced when, in the President's absence, members of senior Management chair Board discussions dealing with issues directly under their responsibility.

- The leadership selection process at the World Bank Group is opaque and excludes most of the membership. There is no formal, transparent process for candidate searches. The unwritten convention that the President of the World Bank must be a U.S. national (and the Managing Director of the IMF must be European) persists. Unwritten nationality restrictions also persist for the Executive Vice-Presidents who head the IFC and the Multilateral Investment Guarantee Agency (MIGA).

- The existing framework for presidential accountability needs strengthening. While Codes of Conduct for the Board and for Staff and the provisions of the President's appointment letter guard against certain types of misconduct and ethics violations by the chief executive, they do not provide standards for judging key aspects of presidential performance. Similar concerns apply to the Executive Vice-Presidents who head MIGA and the IFC.

- Though Executive Board work requires a very diverse mix of capabilities and skills to oversee the complex activities of the Group, there is currently no mechanism to ensure that the individuals appointed as Executive Directors have appropriate professional skills and experience, or that the Board as a whole has the requisite mix of skills and capabilities. The problem begins with the absence of standardized job descriptions and qualifications for Directors.

- The operational demands currently placed on the Board leave insufficient time for monitoring, evaluation, and other oversight activities.

- The delineation of responsibilities among the Group's safety net units[3] is not always clear, and their incomplete coverage gives rise to accountability gaps, some of which came to light during the World Bank's leadership crisis in the spring of 2007. Also, certain practices reduce the real and perceived independence of the safety net units.

Summary recommendations

The five main measures recommended in the report have a unifying logic. They are mutually-reinforcing and interdependent—they will only have their intended effect if they are adopted and implemented as a single package.

Recommendation 1. Enhance voice and participation

- **Board consolidation.** The Commission recommends adopting a Board of Directors that is relatively compact and therefore more efficient and effective. The World Bank Group's Board should be reduced in size to 20 chairs from the current 25. Board consolidation should be achieved in part by reducing the number of European chairs by no less than four.

- **Elected chairs.** The Board should eventually be composed entirely of elected chairs representing multi-country constituencies. To that end, the five currently appointed chairs should be transformed into elected chairs, and a ceiling should be placed on the number of countries in each constituency (for example, ten per constituency) to ensure a more even distribution of members across the groups.[4]

- **Allocation of voting power.** The Commission recommends that the following principles govern the allocation of voting power at the IBRD, IFC, and IDA:

    - Automatic shareholding reviews (to take place every five years) should be introduced in the IBRD and IFC to ensure that the shareholding structures and dynamic and keep up with changes in the global economy and in the circumstances of member countries.

    - The historical link between IMF quotas and IBRD shareholding and voting power allocation should be abandoned. Bank-specific principles and formulas for shareholding should be developed, along with a transitional arrangement for their gradual implementation.

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[3] These are the Independent Evaluation Group (IEG), the Inspection Panel (IP), the Compliance Advisor/Ombudsman (CAO), the Independent Audit Department (IAD), the external auditors, the Quality Assurance Group (QAG), and the Integrity Vice-Presidency (INT).

[4] Converting appointed to elected chairs will require amending the Articles of Agreement, an endeavor that will take some time to accomplish even if the political will exists. Therefore, in the short term, Board consolidation along the lines proposed above should be accompanied by a regrouping of constituencies so that all 15 elected chairs represent multi-country constituencies.

- With or without the introduction of a Bank-specific shareholding formula, the share of basic votes in total voting power at the IBRD and IFC should be raised and fixed at a level much closer to what it was when the organizations were created—10.78 percent at the IBRD and 12.28 percent at the IFC.

- The balance in voting power between developed and developing countries in the IBRD and IFC should be re-examined, with a view toward achieving an even split between the two groups of countries in the IBRD and IFC. Once reached, this principle for allocation should remain flexible enough to adapt to changes in the global economy and to the migration of countries from one category to another.

- In IDA, voting power allocation should move away from the practice of weighting equally all contributions regardless of age. An appropriate discount factor should be introduced so that relatively recent contributions receive more weight than old ones when allocating voting power. This will make the system fairer and encourage contributions.

- The majority required for amending the IBRD's Articles of Agreement should be lowered from 85 to 80 percent.

Recommendation 2. Restructure the WBG's governing bodies

- **Elevating the World Bank's Board.** The present Board of Executive Directors should be reconstituted as the World Bank Board. Directors should be ministers and their Alternates officials at the deputy or vice-ministerial level. The responsibilities of the reconstituted World Bank Board would include selecting, appointing, and (if required) dismissing the President; setting the Group's overall strategy and direction, taking into account proposals from the President; making major policy decisions; and conducting general oversight of the institution, including periodically reviewing the President's performance. The Board would meet a few times a year, rather than twice a week, as it currently does.

- **Delegation to Management.** Approval of all financing operations should be transferred to Management. This will enhance the institution's flexibility and efficiency by reducing the number of steps necessary for loan approvals. It would also free up considerable Board and staff resources currently devoted to the Board review and approval process. Delegation would also increase accountability by eliminating the conflict of interest inherent in the Board's co-managerial role and by placing responsibility for financing operations unambiguously on the shoulders of Management.

- **An advisory Council of Representatives.** To support the Board, an advisory group of officials should be organized as a Council of Representatives.[5] Each constituency would select a representative through a process to be determined internally by each constituency. Representatives should fulfill professional qualifications agreed by the Board. Decision-making authority would remain exclusively with the Board.

    - The Council's responsibilities would include reviewing briefing papers and related documentation necessary for meetings of the Board and its committees; advising the Board on issues of oversight and the performance of the risk-management units; and discussing and advising the Board on issues of development effectiveness and institutional performance.

    - The Commission recommends that the Council of Representatives be in residence at the Bank's headquarters for a transition period of up to five years.[6] If the accountability framework and processes for rigorous oversight of the institution's activities are in place by then, there may be no overwhelming reason why the Council of Representatives should remain in residency indefinitely at the Bank's headquarters.

- **Chairing the Board.** The restructured World Bank Board would select a chairman from among its members on a rotating basis. To ensure that the Board remains appropriately connected to the institution, the President would remain a non-voting member of the Board.

Recommendation 3. Reform the leadership selection process

The Commission calls for a presidential selection process that is rules-based, inclusive of the membership, and competitive. In addition:

- Nominations from all qualified candidates should be welcomed, regardless of their nationality. Candidates should be sponsored by the government of a member country, though not necessarily by the government of the candidate's own country of citizenship.

- The selection of the Executive Vice-Presidents of both IFC and MIGA should continue to be led by the President, but the process should be rules-based and competitive, without formal or informal restrictions on the nationality of the candidates. Descriptions and qualifications for both positions should be developed and approved by the Board.

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[5] The Council could be established through the same provisions that currently allow the Executive Board to create committees, except that the Council would be a unique type of committee. The World Bank Articles give the Board wide latitude in terms of committee membership and the rules to select committee members.
[6] One member of the Commission felt that a resident Council of Representatives should be a permanent feature, as the responsibilities of the Council would need continuing involvement. According to this view, developing-country constituencies would also benefit from an arrangement in which their officials have an opportunity to interact with various aspects of WBG policymaking directly.

Given the dual nature of the unwritten agreement that reserves the Bank presidency to a U.S. citizen and the IMF Managing Director position to a European national, it is important that the leadership selection processes in both institutions be reformed in parallel, facilitating the political bargain that will surely be required.

Recommendation 4. Strengthen Management accountability

The Commission recommends three measures for strengthening accountability:

- **Presidential performance review.** The Board should introduce a framework for the annual performance review of the President. The framework should provide clear performance criteria, outline how the review process is to work, and propose how assessments should be translated into incentives. The performance review criteria should focus on the President's implementation of Board-approved strategies, on his or her conduct of the ordinary business of the Group, and on the quality of the Group's outputs.

- **Stronger safety net units.** Several concrete measures should be adopted to strengthen the Group's safety net units:

    - An institutional review of the safety net units to assess overlaps, gaps, and inconsistencies should be undertaken and concluded in 2010.

    - The Board should revise the terms of reference of the Independent Evaluation Group (IEG) to (1) require that a majority of IEG staff be recruited from outside the World Bank Group; (2) introduce cooling off periods of appropriate length to end the "revolving door" dynamic between regular IEG staff and World Bank staff; and (3) ensure that the IEG Director General no longer functions as a member of the Group's senior Management.

    - A second external evaluation of the Institutional Integrity Vice-Presidency should be conducted within two years to ensure that the recommendations of the Independent Panel Review of the World Bank's Department of Institutional Integrity (the "Volcker Panel") have been fully and properly implemented and are producing the results intended by the Panel.

    - As part of the institutional review of the safety net units, the Board should consider whether the IFC's Compliance Advisor/Ombudsman (CAO) should continue reporting to Management only, rather than to the Board. In addition, the Board should consider how best to ensure that the CAO has appropriate means to ensure that its recommendations are adopted and implemented by Management.

- **Access to external expertise.** The Board should make more extensive use of external evaluations to assess critical aspects of the Group's activities, processes, strategies, and performance. Also, Board committees should have access to outside legal, accounting, and other expertise as appropriate to fulfill their fiduciary duties.

Recommendation 5. Strengthen the WBG's resource base

- The Commission recommends strengthening the financial capacity of the World Bank Group. While the WBG has responded commendably to the crisis by increasing its lending levels to US$100 billion over a three-year period, its current capital base has not expanded substantially. This means that after the three-year period is over, the Bank will need to lower its lending to below the pre-crisis level for several years. Shareholders will have to decide how best to achieve a recapitalization of the institution, and which parts of the Group to prioritize in this endeavor.

Conclusion

The stakes in reforming the World Bank's governance are high. Some of the most serious and urgent challenges facing humanity today have no hope of solution save through multilateral action. With a central place in the global multilateral system, the World Bank Group is strongly positioned to catalyze multilateral approaches and help design and finance multilateral solutions. But if it is to play this potential role successfully, the institution's governance urgently needs to be modernized so that the World Bank Group has the capabilities and legitimacy necessary to confront the global challenges of our time. Failure to bring the World Bank's governance into the 21st century will undermine one of the international community's most valuable instruments for tackling these challenges.

The package of reforms offered in this report is designed to address these problems, equipping the Bank to be worthy of the full trust and confidence of all its member countries. Implementing these reforms requires a commitment from the leaders of national governments, who will need to acknowledge the potential power of instruments of collective decision-making and action and recognize the urgency of the agenda.

Only national leaders can break the gridlock on reform of the World Bank Group: meaningful reforms of multilateral agencies, at least in their broad outline, are unlikely to be decided anywhere but at the level of heads of state and government. It is unlikely that the WBG's Board of Governors will undertake the necessary reforms without clear directives from their national leaders. Nor is it realistic to expect that major steps towards improved governance will be discussed and agreed by the institution's Executive Board acting alone.

I. Introduction

The imperative of enhanced global cooperation

1. Recent events have highlighted—again and painfully—how important it is in the enlightened self-interest of countries to cooperate with each other. Effective macroeconomic policy coordination, and some pooling and harmonization of financial regulation, supervision, and enforcement, would have worked wonders to prevent the economic crisis that a substantial part of the world's population now endures. It is also clear that once the crisis erupted, even a modicum of cooperation helped the world avoid an even worse disaster.

2. Unfortunately, the folly of uncoordinated action has not been limited to economic issues. Other vital questions of human security have been left unattended, with dire consequences. Problems such as climate change are not being properly tackled also due to countries' reluctance both to give up a small measure of their sovereignty, as traditionally understood, and to pay a relatively small price in the expectation that others will join in their efforts. It is not only that for many years collective action has fallen short of what is needed to address challenges whose solution is in the interests of humanity at large; it is also that challenges themselves gave grown in number and complexity as the world has become more interdependent.

3. Globalization has generated enormous benefits for rich and most poor countries. But interconnectedness and interdependence have also increased the speed and intensity with which some ills may proliferate across the globe, as seen in the virulence of the financial crisis and the rapid spread of the H1N1 virus. The imperative of realizing the full benefits of globalization while managing its costs and risks—added to the need to close long-standing international development gaps—is a powerful reason to be more supportive of multilateral institutions. These institutions are charged with steering and implementing solutions to problems that cannot be tackled effectively by countries acting alone, but whose solution would serve the self-interest of all countries.

4. There are encouraging signs, albeit still tenuous, of renewed interest in reinvigorating the multilateral organizations. Under pressure from the global economic crisis, a new dialogue has emerged in various forums, including the G20, where the pursuit of more cooperative approaches to common challenges is gaining some ground. It is vital to inject momentum into this incipient trend. Reforming the World Bank so it can meet the challenges it is likely to confront in the early 21st century, should be a key part of that endeavor.

The World Bank Group's contribution

5. The World Bank Group ("WBG," "the Group," or "World Bank") was established in 1944 to help rebuild a world ravaged by war and promote international investment to raise "productivity, the standard of living, and conditions of labor in [members'] territories." The

WBG embodies some of humanity's highest aspirations for international cooperation. Its financial model—based on the pooling of members' collective creditworthiness to raise resources for their economic development—itself embodies the spirit of multilateralism.

Box 1. The World Bank Group today

Today's WBG is a development services organization with a staff of more than 10,000 and a net administrative budget of about US$1.6 billion a year. The institution has five arms. Two of these—the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)—focus their lending on public-sector entities. The IBRD provides non-concessional finance with government guarantees primarily to middle-income countries, while IDA provides concessional loans and grants to the world's poorest countries. Two other arms—the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA)—provide financing and services to private-sector entities. The IFC provides loans, equity investments, and financial services to private-sector companies in developing countries, while MIGA provides political risk insurance to those seeking to invest in developing countries. Finally, the International Center for the Settlement of Investment Disputes (ICSID) provides facilities for conciliation and arbitration of international investment disputes.

6. More than 60 years after its founding, the World Bank Group occupies a central place in the global multilateral architecture. Its membership includes almost all the world's countries.[7] As a specialized agency of the United Nations, a "sister" organization of the IMF, a peer of regional development banks, and a partner to more than 180 foundations, programs, and bilateral agencies, the WBG is a key node in the global network of institutions for international cooperation.

7. Several core strengths make up the WBG's comparative advantage. These include a strong credit rating, which gives it a high capacity to intermediate financial resources from world markets. The Group's large stock of cross-country knowledge, highly trained staff, and global network provide a platform through which member countries can learn from one another's development experiences. The World Bank also enjoys widespread trust among its members as a competent fiduciary agent. And, with a wide array of products and services, the Group has at its disposal a diverse set of instruments to combat poverty and promote development.

8. Drawing on these strengths, the WBG has made important contributions to human welfare. It has channeled development finance to poor and middle-income countries, served as an intellectual leader in development thinking, and advocated vocally for the world's poor. Overall, it has directed about US$450 billion in loans and guarantees to its members. World Bank-financed projects and programs have helped expand agricultural productivity in Asia, finance the fight against some of the world's most debilitating diseases, and develop critical infrastructure around the world.

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[7] As of August 2009, the IBRD had 186 members, IDA 169, the IFC 182, MIGA 175, and ICSID, 143. For reference, the United Nations has 192 members.

9. The World Bank Group is widely perceived as relevant today and as a potentially very useful institution in the future. According to a recent worldwide poll, a majority of opinion leaders in most regions of the world see the Bank as relevant to their economic and social development efforts.[8] They also see the World Bank (the IBRD and IDA) as the development organization that will be of greatest importance to them in the years to come.[9]

10. In the coming decades, the world will come to expect more from the World Bank Group. The institution will likely be asked to take on a more active role in helping its membership address key challenges involving global public goods.

11. But addressing these challenges will be more difficult than in the past, for several reasons:

- First, managing the challenges will require more speed and flexibility. Because of the greater interconnectedness of today's world, financial shocks and infectious diseases, for example, can spread farther and faster than ever before, making swift and coordinated responses imperative.

- Second, meeting tomorrow's challenges will require not only more effective but also more complex forms of cooperation among governments and peoples. The number and diversity of actors that need to be involved is growing, making more difficult the coordination, monitoring, and distributional problems that must be solved if international cooperation is to work.

- Finally, the technological and financial demands of meeting new challenges will likely be unprecedented in scale. Mitigating and adapting to climate change—with its complex dynamics, global impact, and difficult political tradeoffs—is emblematic of the challenges that lie ahead.

12. The World Bank Group is well positioned to help the world meet global development challenges, but currently its strengths are undercut by several institutional weaknesses. Mission creep is endemic, reducing accountability for results and increasing the risk that resources will be misallocated or spread too thin, undermining the institution's effectiveness. The Group's decision-making process is widely seen as too exclusive, offering many member countries too little voice and too few opportunities for participation. Insufficient institutional accountability for results weakens the World Bank's

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[8] See The Gallup Organization (2008), *World Bank Group Global Poll, 2008*. This World Bank-commissioned survey interviewed more than 2,600 opinion leaders in 42 countries around the world and stakeholders within the European Union and United Nations constituencies. The opinion leaders were from government, the media, the private sector, NGOs, and academia. The survey was conducted in the spring of 2008 and covered 31 developing and 11 developed countries. Respondents saw the WBG as most relevant in East Asia/Pacific and Sub-Saharan Africa and least relevant in South Asia and the Middle East/North Africa.
[9] On future importance, the survey compared the World Bank (IBRD-IDA) with the UNDP, other UN agencies, IMF, private foundations, NGOs, and bilateral agencies. IFC and MIGA were also in the group but were ranked significantly below IBRD-IDA.

effectiveness and legitimacy. And certain conventions and practices have contributed to the perception that the institution is accountable and responsive only to a handful of shareholders at best.

13. These problems are not new. They have long been recognized inside and outside the institution, and some efforts have been made over time to address them. Yet, these measures have fallen short, partly because the problems are rooted in aspects of the World Bank's governance arrangements that are not easily reformed by the Board of Executive Directors or Management acting alone.

14. The problems spring in large measure from the fact that the World Bank's governance structures and practices were designed for a very different world. In the immediate aftermath of World War II, the world was much less integrated economically, and the United States accounted for more than half of global economic output. The World Bank operated as a single entity rather than a multi-arm group. With only one quarter of its current membership, the Bank had half as many Executive Directors on its Board and one twentieth as many staff on its payroll as it does today. This was an institution fit for postwar realities and objectives, and its governance arrangements reflected those realities. They still do.

15. Sixty years on, this institutional legacy has become a liability. In the early 21st century, the World Bank Group must become a more forward-looking, flexible, inclusive, and legitimate institution. This demands governance arrangements that better match the realities and challenges of our time.

Why governance matters

16. In preparing this report, the Commission took as its guiding vision a World Bank Group that works effectively to help the international community meet key challenges. That vision is of a World Bank Group that:

- is more inclusive and better at engaging those countries that are central to addressing key global issues;
- serves not only as a platform for managing problems arising from competing national interests, but also as a catalyst for multilateral solutions, functioning as more than the sum of its parts;
- is more results-focused and more accountable to its shareholders for results; and
- is more strategic about its interventions, more rigorous in evaluating and learning from its performance, and more open to collaboration with other institutions.

17. Also, we were guided by a vision of a World Bank that inspires higher levels of trust and enjoys greater legitimacy among its members. "Trust" in this context means confidence

that the interests of the relatively poor members will be looked after along with those of wealthier countries. “Legitimacy” implies an institutional structure in which members are represented in such a way that they can expect all countries’ interests to be balanced in a reasonable manner.

18. Realizing this vision of the World Bank Group requires rethinking the institution’s governance arrangements. By “governance” we mean the set of formal and informal structures, conventions, and rules that determine how an organization is steered and how its decision-making processes work. The characteristics the World Bank must possess in the 21st century—adaptability, accountability, legitimacy, a strong focus on results—are all directly connected to the institution’s governance structures and practices. Changing the institution’s performance therefore requires engaging directly with its governance.

19. Past discussions about governance reform at the World Bank have tended to focus primarily on issues of “chairs and shares”—on the distribution of voting power and the composition of the governing bodies. But other elements of governance are also important. These include, for example, the division of labor and responsibility among governing bodies and the independence and robustness of evaluation and control mechanisms. These should not be neglected and should be seen as essential to any governance reform package.

20. The Commission found several governance gaps that must be addressed. A central problem involves the fusion of three functions in the Executive Board: political representation of the membership, management of operations, and oversight and supervision. This fusion of functions dilutes accountability and creates conflicts of interest. In turn, these conditions prevent the institution from undertaking critical tasks effectively, especially that of overseeing the institution’s performance. Also, it is not clear who is responsible for formulating and approving strategies, which undermines the Group’s capacity to act coherently and to maximize its impact. Leadership selection is ultimately the privilege of just one member, which hinders legitimacy and accountability. And an imbalance in the distribution of voice and participation raises concerns about fairness and trust.

A window of opportunity

21. A window of opportunity is currently open for modernizing the World Bank Group’s governance. The global economic crisis has highlighted the enduring need for international collective action, and in response the world’s leaders have signaled their willingness to undertake bold action to confront the crisis and to strengthen the multilateral system. Ongoing discussions about the need to augment the World Bank Group’s resource base may also serve to stimulate a debate among the membership on how best to strengthen the institution’s governance.

22. This report contributes to what is already a rich ongoing debate. Several groups have made proposals on reforming the World Bank’s governance, bringing the issue to the

attention of senior policymakers.[10] These proposals reflect a wider preoccupation with strengthening the governance of all international organizations, including the International Monetary Fund, the United Nations, and the World Trade Organization.[11]

23. Our recommendations seek to preserve and nurture the World Bank Group's strengths while addressing those aspects of its governance that prevent it from becoming a more accountable, effective, and legitimate institution. The adoption of the recommended reforms will require the active involvement of member-country authorities at the highest political level.

24. Prescribing which sectors and issues the World Bank Group should concentrate on is beyond the remit of this Commission. It makes little sense for a Commission studying the medium- and long-term future of the institution to prescribe priorities and focus areas, as these will inevitably shift along with the frontiers of human knowledge and the imperatives for international action. Instead, the Commission made the reasonable assumption that the World Bank Group will continue to undertake a broad, complex, and dynamic mix of activities in the coming decades. It then focused on identifying governance arrangements that would best enable the World Bank's shareholders to set the institution's mission and strategy and to balance tradeoffs.

25. The report begins by considering some of the most important challenges that the World Bank faces today and is likely to face in the early 21st century. Section II also highlights the importance of effective WBG governance in helping the membership manage these challenges. Section III assesses the organization's existing governance arrangements, using as a reference point relevant principles of good governance and the best existing analyses of the World Bank's performance to date. Section IV presents the Commission's recommendations, and Section V offers conclusions.

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10 See, for example, World Bank (2008), "Report of the Working Group on Internal Governance" ("Familiar Report"), R2008-0197 (unpublished); United Nations (2009),"Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System;" and the G20 Communiqués from London, April 4, 2009, and Pittsburgh, October 25, 2009.

11 See, for example, International Monetary Fund, Independent Evaluation Office (2008), *Governance of the IMF: An Evaluation*; World Trade Organization (2004), *The Future of the WTO: Addressing Institutional Challenges in the New Millennium: Report by the Consultative Board to the Director-General Supachai Panitchpakdi*; and Independent Steering Committee for the Comprehensive Review of Governance and Oversight within the United Nations System (2006), *Comprehensive Review of Governance and Oversight.*

II. The World Bank's mission in the early 21st century

26. This section highlights—without prescriptive aspirations—the scope and complexity of the World Bank Group's current activities, as well as the key dilemmas and tradeoffs they pose. Awareness of this context makes helps one appreciate why the Group urgently needs more effective governance to help its shareholders manage the tradeoffs the organization faces now and is likely to face in the future.

27. The discussion below examines seven aspects of the Group's work: (1) promoting growth and development while reducing poverty; (2) assisting conflict-affected countries; (3) lending to middle-income countries; (4) producing, aggregating, and transferring knowledge; (5) fostering global public goods (GPGs); (6) preventing and mitigating shocks; and (7) securing adequate financial resources.

Focusing on the core mission: growth, development, and poverty reduction

28. Promoting economic development by "facilitating the investment of capital for productive purposes" has been the core mission of the World Bank since its inception. Alongside the reconstruction of Europe's war-torn economies, the IBRD's Articles of Agreement call for "the encouragement of the development of productive facilities and resources in less developed countries." Though the core mission of the World Bank has not changed, the means by which economic development has been promoted have evolved over time.

29. Since the early 1970s, the World Bank's growth and development mandate has been complemented by a strong commitment to helping reduce global poverty. Today, the WBG pledges "To fight poverty with passion and professionalism for lasting results" and "To help people help themselves and their environment…"[12] Outside the World Bank Group, too, poverty reduction is seen as a core role of the organization. A large majority of opinion makers in all regions of the world believes that the WBG should play a leading role in supporting the poorest countries.[13]

30. As the World Bank pursues this mission, it will need to resolve several dilemmas:

- **Lending to the poorest.** Historically, World Bank programs have performed well in countries—many of which have now achieved middle-income status—with relatively good implementation capacity, but relatively poorly in countries with weak implementation capacity.[14] This produces incentives to lend less to countries that may need development resources most. Therefore, the WBG must find a way to achieve more significant measurable results in countries where capacity is weakest.

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[12] See <www.worldbank.org>.

[13] Of the respondents to the WBG Global Poll, 83 percent thought the Bank should play a leading role in supporting the poorest countries; this priority was ranked highest of nine.

[14] See World Bank Independent Evaluation Group (2006), *2006 Annual Review of Development Effectiveness (ARDE)*.

- **Trust funds.** The rapid proliferation of trust funds raises important questions for the Group.[15] In FY2008, trust fund disbursements—at US$6.73 billion—were equivalent to half of all IBRD disbursements, or about a quarter of combined IBRD and IDA disbursements for that year. With their separate governance structures and earmarked resources, trust funds can undermine seriously the coherence of World Bank activities and may pose a threat to the coordination of development assistance more generally. Going forward, the institution's management and shareholders will want to consider applying clearer and more consistent policies to determine which trust funds the Bank should accept, how they should be governed and managed, and how they should relate to the institution's ongoing work.

- **Private-sector financing operations.** The WBG may want to continue supporting the private sector through its private-sector arms, the IFC and MIGA. The effectiveness of IFC as a development institution depends on whether its financing truly complements private sector resources, stimulates new private-sector investment, and has a significant impact on development. Mechanisms to track systematically the additionality and development impact of IFC financing operations are still in their infancy and suffer from numerous shortcomings.[16] IFC shareholders will have to decide whether to commit additional resources to the Corporation or wait until its monitoring and evaluation systems are strengthened. Regarding MIGA, shareholders may want to consider the continued viability of this separate agency for investment guarantees.

- **Division of labor.** Regional institutions have become increasingly important in the economic and political life of the World Bank's member countries, serving as catalysts for regional integration, cooperation, and development assistance. A more strategic, coordinated, and efficient division of labor is required between the World Bank Group and the regional and sub-regional multilateral development banks. The same can be said of the World Bank's division of labor with UN agencies. The spirit of cooperation and harmonization is already embodied in the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action, but continued leadership from the World Bank's shareholders and management will be required to keep this agenda moving forward.

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[15] A trust fund is a fund established with contributions from one or more donor(s) to support development-related activities. The World Bank Group administers and disburses these funds according to established policies and procedures in agreement with donors. As of June 30, 2008, it administered 1,020 trust funds amounting to US$26.3 billion, up by 23 percent from US$21.4 billion a year earlier. Many of the largest trust funds are devoted to global public goods-related activities, such as controlling the spread of infectious disease and mitigating climate change.

[16] World Bank Independent Evaluation Group (2008), *Enhancing Monitoring and Evaluation for Better Results: Biennial Report on Operations Evaluation in IFC, 2008*.

Advancing an original mandate: assisting conflict-affected countries

31. Supporting conflict-affected countries is one of the World Bank's original mandates.[17] Over time, the WBG's approach to post-conflict reconstruction has evolved from rebuilding infrastructure to supporting the social sector, building institutional capacity, investing in human capital, and integrating ex-combatants into the peacetime economy. In 2007, the Development Committee called for the Group's "active engagement" in fragile and conflict-affected states.[18]

32. Challenges the Bank Group will face in pursuing this mandate include:

- **Collaboration.** Supporting conflict-affected countries poses multidimensional challenges, and the WBG has a comparative advantage only in some areas. The World Bank recently entered into agreements with the United Nations and the European Commission, acknowledging the interdependent nature of these institutions' efforts in post-conflict situations.[19] Making these partnerships work will require political leadership, a keen understanding of the WBG's comparative advantage, and intensive cooperation on the ground.

- **Weak or no capacity.** State capacity in conflict-affected countries is extremely weak, and in so-called "failed" states, it may be non-existent. This creates a uniquely adverse environment for development interventions and raises fundamental concerns for the WBG about designing conditionality, monitoring and safeguarding the use of resources, and measuring results. The institution may need to rethink its country-based paradigm to account for the unique difficulties faced in conflict-affected country operations, as well as considering whether and how conflict-affected countries may be treated differently from other borrowers.

Rethinking a traditional mission: lending to middle-income countries

33. Some middle-income countries have improved their access to international capital markets in the past two decades.[20] As a result, some observers have even called for the Bank's gradual disengagement from middle-income countries, leaving their financing

[17] The World Bank defines conflict-affected countries as those that (1) have experienced violent conflict in the past five-to-ten years or (2) are currently experiencing violent conflict or (3) are perceived as being at risk of violence.
[18] Development Committee Communiqué, October 21, 2007.
[19] These agreements include the Partnership Framework for Crisis and Post-Crisis Situations, signed by the Secretary-General of the United Nations and the President of the World Bank in October 2008; the supporting Fiduciary Principles Accord negotiated with eleven UN agencies to facilitate the timely transfer of financial resources; and the Joint Declaration on Post-Crisis Assessments and Recovery Planning, signed by the World Bank, the European Commission, and the United Nations in September 2008.
[20] The "middle-income" label currently applies to 95 countries with a per capita gross national income between US$935 and US$11,455.

strictly to international financial markets and regional development institutions.[21] Voices for disengagement grew louder as demand for IBRD financing fell sharply in the late 1990s and early 2000s.

34. The Commission believes that the World Bank Group still has an important and constructive role to play in middle-income countries. MICs are home to two thirds of the world's population and three quarters of all people living in poverty. Even in 2015 and 2030, the vast majority of people living on US$2 a day are expected to live in China, India, and other MICs. Also, many middle-income countries have only modest access to international capital markets; in 2006, at the peak of the economic boom, only 11 of the 95 countries that the World Bank classifies as MICs enjoyed investment-grade ratings from Standard and Poor's. Finally, as periodic crises have shown, access to capital markets is unreliable. As a result of the current crisis, IBRD lending tripled in FY2009 to more than US$32 billion, much of it driven by demand from MICs. The Bank's ability to increase lending at a time of capital market failure was an important element for stabilizing the global economy.

35. Middle-income countries are also important to the World Bank. Many of them are gradually shifting their role from borrowers and aid recipients to creditors and donors. For example, China, Egypt, South Korea, and Turkey, once recipients of IDA assistance, are now net contributors to IDA. At the same time, the participation of some of the larger MICs seems indispensible for tackling effectively certain global problems, including climate change.

36. If the World Bank Group is to remain productively engaged in middle-income countries it will need to resolve some complex challenges:

- **Sustained engagement.** The WBG will need to provide products and services that are better tailored to these countries' development needs. These countries require resources to support counter-cyclical policy lending during shocks; concessional financing for GPG-related projects; and financing for the acquisition of knowledge. In addition, the relationship between new services and traditional lending may need to be re-examined. For example, if the practice of charging all IBRD countries the same rates for loans is revised, differentiation should apply to groups of countries on the basis of transparent, Board-approved indicators. Another question is whether incentives should be introduced to encourage richer MICs to graduate faster, as was recommended in 2001 by the Gurría-Volcker Commission.[22]

- **How much risk?** Before the current crisis, MICs reduced their demand for IBRD loans in part because of the relatively high financial and non-financial costs of these

[21] See, for example, International Financial Institution Advisory Commission (2000), *Report of the International Financial Institution Advisory Commission*. Washington, DC.
[22] José Angel Gurría and Paul Volcker (2001), "The Role of the Multilateral Development Banks in Emerging Market Economies: Findings of the Commission on the Role of the MDBs in Emerging Markets." Carnegie Endowment for International Peace.

loans (the "hassle factor"). If the Bank seeks to lend more to MICs in the future, these costs will have to be contained and reduced. This will raise sensitive questions. IBRD shareholders will have to consider how far pricing can be adjusted to increase the attractiveness of WBG loans vis-à-vis commercial borrowing, without jeopardizing the institution's financial health and credit rating. They will also need to find ways to make the non-financial costs of borrowing from the Bank less onerous while observing environmental and social standards.

Strengthening a core competency: knowledge

37. The production, aggregation, and dissemination of development knowledge is one of the WBG's core activities. The Group's knowledge products and services include research, advisory and analytical services, and technical assistance. They account for some 60 percent of the institution's allocable administrative budget. Spending on these items amounted to some US$500 million in 2008, or about a quarter of the Group's total budget plus Bank-executed trust funds.

38. To be engaged in knowledge production, and even in aggregating and sifting available knowledge to shape the design of its loans, policy advice, and technical assistance to member countries, the WBG needs research capacity of its own. The WBG also has a strong advantage in certain research activities compared to academia and think tanks. For example, it is uniquely positioned to collect, catalogue, disseminate, and draw lessons from cross-country data on development trends and the outcomes of policy interventions. It is also well placed to combine high-powered research capacity with on-the-ground knowledge to produce applied research that is directly relevant to members' practical development problems.

39. However, building the "Knowledge Bank" will continue to pose several dilemmas for shareholders and management:

- **Research relevance.** WBG researchers have long faced a tension between producing research that caters to the academic community and research that addresses directly the development needs of member countries. A recent external evaluation found that the Bank's research output is too academic and not sufficiently practical.[23] Shareholders and management will need to ensure that Bank researchers face appropriate incentives to produce relevant and useful research, and that effective evaluation mechanisms are in place to monitor and, when necessary, redirect, the institution's research output.

- **Openness.** For the WBG's knowledge-production system to maintain a high degree of quality it must be open to outside ideas, external evaluation, and competition. Open-mindedness and guarding against "one-size-fits-all" approaches is also essential. Management and shareholders will have to find ways to bring these quality-enhancing forces to bear inside the Bank's knowledge-production complex.

[23] See World Bank (2006), *An Evaluation of World Bank Research, 1998-2005*.

- **Advocacy.** When Bank management and staff advocate in favor of certain policies, using the knowledge that the World Bank produces but without presenting a balanced view of the evidence, they risk overstepping the bounds of propriety. A 2006 external evaluation of World Bank research found evidence that this line was crossed in important cases.[24] If the institution is to be a trusted supplier of ideas, it will have to ensure that its prescriptions are always based on a fair reading of the evidence and suitably reflect the scope for heterodoxy.

- **Knowledge production and delivery.** Management and shareholders may wish to consider alternative forms of knowledge production and delivery. Many promising proposals have been tabled. De-coupling knowledge from financing is one option, as is expanding the World Bank's fee-based knowledge offerings, perhaps using a standardized rate schedule.[25] However, a shift to more fee-based knowledge services should not come at the expense of producing knowledge that is relevant to low-income members, which may not be able to afford such services.

  Under another proposal, the WBG might finance members' acquisition of knowledge, even if that knowledge is not produced within the institution itself. Such a financing scheme would complement measures designed to bolster indigenous research capacity in developing countries.

  Finally, the Group may need to reconsider its own human resource policies, which have traditionally been accused of contributing to brain drain. In this context, it may be sensible to limit the tenure of its professional staff members so that they come to the World Bank with the expectation of returning to serve in their own countries. An alternative would be a secondment program through which Bank employees could work in their home countries for certain periods without losing their accumulated Bank benefits.

Preparing for the future: global public goods

40. Since the 1990s, the WBG has sought a more active role in fostering the provision of global public goods.[26] In fact, large majorities of opinion leaders around the world see fostering global public goods as the World Bank's most important mission after supporting

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[24] See World Bank (2006), *An Evaluation of World Bank Research, 1998-2005*.
[25] So far, only a very small fraction of knowledge services has been offered on a fee basis. Of fee-based knowledge services, 87 percent are funded by the seven-country Gulf States Technical Cooperation Program (US$3.5 million in FY2006) and by five other programs (Algeria, Kazakhstan, Mexico, South Africa, and Venezuela, totaling US$11.8 million). Only the programs with the Gulf States and Kazakhstan are ongoing annual programs; the rest respond to occasional requests that may or may not be repeated.
[26] For a discussion of the concept of global public goods and identification of the ones that should receive priority attention, as well as practical issues for their provision, see International Task Force on Global Public Goods (2006), Final Report, *Meeting Global Challenges: International Cooperation in the National Interest.*

the poorest countries.[27] The Development Committee has flagged five GPGs as priorities: (1) preserving the environmental commons, (2) controlling the spread of communicable diseases, (3) enhancing the participation of developing countries in the global trading system, (4) strengthening the international financial architecture, and (5) creating and sharing knowledge relevant to development.[28]

41. The World Bank Group can potentially make a very significant contribution to fostering global public goods. It can provide financing to implement agreed policies. It may also produce research to develop frameworks and policies for generating GPGs and offer expertise as a fiduciary agent to manage GPG-related funds. Its convening and advocacy powers may be used to promote cooperation among the governmental and non-governmental actors providing GPGs.

42. Climate change, in particular, is an area where the World Bank Group could be of great value in complementing multilateral efforts.[29] Climate change will affect the vast majority of the organization's members, and in different ways. To be sure, the World Bank Group is not the appropriate setting for negotiating the complex distributional issues involved in controlling carbon emissions (these issues are being addressed in ongoing discussions in the context of the United Nations Framework Convention on Climate Change). But if additional financing is required to implement elements of international agreements on climate change, the World Bank Group could provide financial products and related management skills.

43. Promoting the provision of global public goods will present the World Bank and its members with some difficult questions:

- **Strategic role.** To contribute effectively to the long "production chain" of global public goods, the World Bank Group will need to be strategic about where and how it can help. Its shareholders will have to decide where it is best equipped to participate or even lead. Further, the Group will need to collaborate closely and efficiently with other institutions of the multilateral system.

- **Country model.** The WBG remains closely wedded to a country-based paradigm, but aspects of that model could become a hindrance as the institution seeks to promote GPGs. For example, a recent evaluation found that World Bank staff currently lack sufficient incentives to integrate GPG components into country-level

[27] The Global Survey found that after "supporting the poorest countries," the two most popular areas in which stakeholders thought the WBG should play a role were as "climate change leader" (71 percent) and "supporting global public goods" (70 percent).
[28] Development Committee Communiqué, April 30, 2001. See also World Bank (2007), "Global Public Goods: A Framework for the Role of the World Bank," DC2007-0020, September 28.
[29] Given the burden sharing across countries and generations that mitigation and adaptation would require, climate change may prove to be the most complex challenge the world has ever faced. For a concise explanation of why this is the case, see various contributions contained in Ernesto Zedillo, ed. (2008), *Global Warming: Looking Beyond Kyoto*. Brookings Institution Press.

strategies, programs, and documents.[30] Also, while the World Bank's country strategies typically cover three to four years, GPG strategies require much longer time horizons. Finally, in many IDA countries, the institution will face a tension between devoting resources to poverty alleviation and channeling resources into GPG-related areas that may not have a direct impact on poverty reduction.

- **New instruments.** Given the special characteristics of GPGs, the World Bank Group may need to introduce new instruments or build on existing ones to promote GPGs more effectively. One example is to expand the use of multi-country loan instruments across small groups of countries facing cross-border externalities, as was famously done in the 1970s to fight river blindness through the Onchocerciasis Control Program. Another possibility is to use World Bank grant instruments to support GPG-relevant basic research and to strengthen regional institutions, which ultimately may be best suited to provide regional public goods.

Preparing for the future: preventing and mitigating shocks

44. Preventing and mitigating shocks—both natural and man-made—could prove an increasingly important mission for the World Bank Group. Member countries—particularly low-income countries—will require World Bank resources and financial products to cope with sudden price shocks, extreme weather events, pandemics, and the volatility of international development assistance itself. Already, the organization has helped to mitigate disruptions in global trade finance and spikes in food and energy prices. But these efforts have been largely *ad hoc*. In coming years, the World Bank should consider how to use its comparative advantage to institutionalize instruments for shock prevention and mitigation.

45. This area raises at least two important issues for shareholders and management:

- **Collaboration.** Collaboration between the World Bank and other actors in the multilateral system, including other UN agencies and the IMF, is essential. Bank-Fund collaboration has a long history characterized by agreements and concordats, but the system in place remains inadequate, as illustrated by recent reviews.[31] More effective efforts will be necessary to ensure that the emergency facilities offered by the IMF and the World Bank complement rather than duplicate each other.

- **IBRD borrowing.** The membership may want to consider ways to make IBRD financing available to the poorest countries during shocks. For example, one proposal entails allowing IDA borrowers to access IBRD financing during crises, but under terms softened to concessional levels by contributions from bilateral donors

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[30] See World Bank Independent Evaluation Group (2008), *2008 Annual Review of Development Effectiveness (ARDE)*.

[31] See, for example, the *Report of the External Review Committee on Bank-Fund Collaboration* ("Malan Report") (2007), and World Bank Independent Evaluation Group (2008), "Lessons from World Bank Group Responses to Past Financial Crises," Evaluation Brief No.6, December.

and IBRD profit contributions. This would help provide the poorest countries with shock-mitigation financing without cannibalizing IDA's resources for long-term development programs. Tradeoffs will be involved, because opening IBRD financing to IDA countries would require more stringent loan provisioning.

Preparing for the future: securing adequate resources

46. Securing enough resources to meet its objectives will remain a persistent challenge for the World Bank, and the current state of the world economy and the pressing need to launch GPG-related investments makes this an urgent priority.

47. **IDA funding.** In recent years, some donors have scaled back their shares in IDA contributions, without compensatory increases from other donors. Also, while debt relief has lifted the financial burden on many poor countries, it has simultaneously reduced the credit reflows to IDA, significantly lowering IDA's assets. There are also concerns that trust funds could displace IDA contributions.

48. **Meeting crisis needs.** The most serious global economic crisis in 80 years has sharply reduced private capital flows to developing countries. The declines have been only partly offset by an increase in official flows. During the lengthy recovery period, countries will look to the World Bank Group and other multilateral financial institutions to fill the financing gap and to help them cope with the social consequences of the economic crisis, including poverty, unemployment, and human insecurity. How large the gap will be is uncertain, but the resources needed to fill it are expected to be substantial. The IBRD's decision to increase its lending to US$100 billion over three years is a welcome response to the global crisis, but it means that unless the Bank's capital is increased, the volume of IBRD lending will have to fall below the pre-crisis level at the end of the three-year period.

49. **Resources for GPGs.** As the world hopefully moves toward a consensus on how to foster certain GPGs, particularly climate change mitigation and adaptation, the demands on the WBG will likely increase. The volume of resources required for fostering GPGs are likely to be considerable.

50. As this section has made clear, the World Bank's mandate is broad and its portfolio complex. Adapting the institution to a changing global context will require its members and management to grapple with difficult tradeoffs. To balance conflicting priorities effectively, the institution will need to ensure that the membership stays engaged at the appropriate political level; that more rigorous mechanisms for strategy formulation are in place, along with clear frameworks for setting priorities and aligning resources with strategy; that the members have access to reliable and objective information about the organization's strengths and weaknesses; and that all members—including those countries that will be called upon to play a leading role in managing emerging challenges—have a strong sense of ownership in the institution. To enable the World Bank to meet these conditions, its governance arrangements must be revisited.

III. Assessment of World Bank Group governance

51. This section assesses the World Bank Group's existing governance structures and practices. It concludes that the WBG's performance is hindered by several key weaknesses. Current mechanisms for strategy formulation are not adequate for setting priorities and guiding operations. As a result, they undermine members' ownership of the Group's strategy, foster mission creep, and increase the risk of misallocating resources or stretching them too thin. In addition, the institution's decision-making process is widely seen as allowing many member countries insufficient voice and opportunities for participation. Finally, there is insufficient institutional accountability for results—a problem that ultimately weakens the effectiveness and legitimacy of the World Bank.

52. The section begins by highlighting some essential principles of good governance relevant to the World Bank Group. It then provides a brief sketch of the existing governance structure and assesses the degree to which current governance arrangements support strategy formulation, voice and participation, and accountability.

Principles of good governance

53. It is not easy to identify key principles of good governance for an international organization. Simple comparisons to private sector corporations, which are subject to the discipline of the market, or to public sector organizations, which are subject to control by sovereign authorities, are not always relevant. However, one can assert a broad principle that an organization's governance structure should provide the people who comprise its governing bodies with proper incentives to pursue objectives that are aligned with the interests of shareholders and stakeholders. In the case of the World Bank, good governance means that these incentives are embedded in the institutional structure itself and therefore remain in place independently of the political preferences of national governments, the personal idiosyncrasies of World Bank presidents, and the qualities of Board directors.

54. The Commission suggests that international organizations are more likely to be well governed if they abide by, among others, the following principles:

- Governance arrangements should allow the organization to formulate a strategic vision and to translate it into efficient operational policies, taking into account the organization's comparative advantage, environment, and risks. The arrangements should also provide enough flexibility to allow the institution to adapt within a reasonable time to changing conditions.

- The division of labor among governing bodies should be precise to avoid confusion, duplication, and the dilution of responsibility and accountability.

- Conflicts of interest must be avoided as far as possible and made transparent in all cases. Governance that permits decisions that benefit the particular interests of a shareholder or individual at the expense of the larger membership is not acceptable.

- The ability of independent evaluators and auditors to provide objective analysis to the shareholders and their representatives must be strictly safeguarded through measures that preserve their independence.

- Shareholders should have adequate channels to make their voice heard, to participate meaningfully in decision making, and to influence policy outcomes; mechanisms should be in place to protect the interests of minority shareholders and resource recipients, not just those of resource providers. Since multiple shareholders may not always share the same perspective and unanimity cannot be assured, a central governance principle should be transparency, so that differences are not obscured and have a greater chance of being reconciled.

- Leadership selection should be based on a competitive, transparent, and rules-based process with no restrictions on the nationality of candidates.

55. The Commission emphasizes that while there can be broad agreement on general principles of good governance, no single governance model is appropriate for all institutions. The World Bank Group's unique mandate and membership should be taken into account in any assessment of its governance.

Existing structure

56. The World Bank's governance structure was originally conceived at the 1944 Bretton Woods Conference. The delegates—having completed talks on the International Monetary Fund and hoping to avoid another set of extensive negotiations—applied the governance structure originally designed for the Fund to the World Bank. Since then, the governance arrangements of both institutions have mirrored one another despite important differences in their mandates and purpose (see Box 2).

57. Despite its imperfect inception, the WBG's governance structure has shown several strengths. The principle of representing member countries in the organization's governing bodies through constituencies provides a useful mechanism to balance representation and decision-making efficiency. The use of constituencies has allowed the World Bank's membership to quadruple without paralyzing decision making. Also, the link between shareholding and voting has provided, at least in principle, a relatively flexible system that allows the allocation of voting power to adapt to changing conditions.

Box 2. Parallels in World Bank and International Monetary Fund governance

The United Nations Monetary and Financial Conference, better known as the Bretton Woods Conference, took place over three weeks in New Hampshire, USA, in July 1944. Convening 730 delegates from 44 nations, the conference produced an institutional framework for postwar international monetary and financial relations.

The governance of the International Monetary Fund was considered first and took up most of the initial week's discussions. For reasons of time and convenience, the delegates applied to the World Bank the same governance structure they had designed for the IMF. As a result, Article V of the Bank's charter ("Organization and Management") was nearly an exact copy of the Fund's Articles XII and XIII. (Fund governance arrangements have since been modified through amendments to the IMF Articles of Agreement, notably to introduce a ministerial-level Council and to revise voting majorities.) Subscriptions to IBRD capital, which determined the allocation of voting power, were linked to Fund quotas. Membership in the IMF was made a prerequisite for IBRD membership.

Despite their similar governance arrangements, the IMF and World Bank Group differ in important respects, starting with their mandates. The Fund focuses on the macroeconomic stability of member countries and of the international financial system as a whole, while the World Bank's mandate centers on financing members' long-term economic development. The IMF has important regulatory powers—members have accepted treaty obligations to provide the Fund with very specific kinds of monetary and financial information on a regular basis as part of Fund surveillance. The Bank, on the other hand, does not have this regulatory role—it can require information only in the context of specific loans.

Also, the institutions' financing models are different. The IMF finances its operations primarily by collecting quota subscriptions from its members, while the IBRD raises the bulk of its resources by selling bonds in international markets. Time horizons vary as well. As the "fire fighter" of the global economy, the IMF must act quickly, providing resources in a matter of weeks or even days, and the duration of its programs typically ranges from one to three years. In contrast, WBG loans take months to prepare, and Bank-financed projects may take many years to bear fruit.

Finally, the Fund is considerably more centralized than the WBG. The Fund is not a multi-arm conglomerate, and most of its policy decisions, especially those related to surveillance, apply to all 186 countries. At the World Bank Group, policy decisions often affect only certain segments of the membership, depending on whether the decision is made by the IBRD, IDA, IFC, or MIGA Board.

The founding fathers at Bretton Woods recognized that equipping both organizations with the same governance arrangements was a flaw in the Bank's institutional design. A top U.S. delegate at Bretton Woods admitted after the conference: "We spent very little time on organization [of the IBRD] in the Bank Committee. As a consequence, no serious attempt was made to structure the organization in a different fashion, possibly more appropriate to its purpose."[32]

58. Over the decades, the core elements of the World Bank's governance model have remained unchanged: (1) a Board of Governors that meets once a year and in which every member has a seat and votes; (2) a resident Board of Executive Directors to which the Governors delegate power and which is closely involved in the operational aspects of the organization's business; and (3) a President who is simultaneously chairman of the Executive Board(s) and chief executive officer of the institution.

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[32] Edward S. Mason and Robert E. Asher (1973), *The World Bank Since Bretton Woods*. Washington D.C.: Brookings Institution, p. 29.

59. As the World Bank grew in size and complexity, new elements were grafted on to the original governance structure. Three additional boards of governors and executive directors were created: one each for IDA, IFC, and MIGA. In practice, however, the executive boards consist of virtually the same people, so that the bodies are best understood as a single Board that meets in different guises, depending on the issue being discussed. The number of executive directors doubled from 12 to 24 (and will be 25 as of 2010), and the staff supporting the Board grew from a handful to some 250.[33]

The Development Committee

60. The Board of Governors is the WBG's highest governing body and contains a seat for every member of the institution. Governors are ministers; about three-quarters are ministers of finance and one quarter come from other government ministries, including international development, planning, and foreign affairs. Most powers of the Board of Governors have been delegated to the Executive Board. The Governors meet annually, but with 186 members, their Board is too large to be an effective source of ministerial-level guidance for the institution.

61. The role of ministerial guidance falls to the Development Committee (DC), an advisory body of 24 ministers who represent the membership at the annual and spring meetings of the Bretton Woods institutions. The Development Committee is a joint committee of the Boards of Governors of the World Bank and the IMF. Its mandate is to advise the Boards of Governors of the Fund and Bank on all aspects of the transfer of resources to developing countries. The DC considers a wide range of topics at its semi-annual meetings, based on papers prepared by World Bank (and occasionally Fund) staff and reviewed by the Executive Board. At the conclusion of its semi-annual meetings, the DC issues a communiqué providing guidance for the Board and staff, though in practice, the Committee is widely seen as dealing only with Bank-related issues. Because the Development Committee is technically only an advisory body, its communiqués do not constitute formal decisions.

The Executive Board

62. Under the Articles of Agreement, the Board of Executive Directors is responsible for conducting the "general operations" of the World Bank and provides direction to the President. The Board performs several key functions: representation of the membership, review and approval of financing operations, and oversight of the Group's staff and management. In 1947, an agreement between the Board and President determined that the

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[33] On the boards of the IBRD, IDA, and the IFC, five Executive Directors are appointed by the shareholders having the largest shares (the United States, the United Kingdom, France, Germany, and Japan), and 19 are elected by the rest of the members, organized in constituencies. Three countries (China, Russia, and Saudi Arabia) elect their own Directors. These Directors represent only one country, while the other 16 represent multi-country constituencies. Appointed Directors serve at the discretion of their governments, while elected Directors serve renewable two-year terms. On the MIGA board, a quarter of the Directors are elected separately, one each by the members having the largest number of shares (six at present), and the rest are elected by constituencies.

Executive Directors are responsible "for the decision of all matters of policy in connection with the operations of the Bank, including the approval of loans," while Management is charged with developing recommendations on all policy matters requiring decision by the Board and with presenting them to the Board.[34]

63. The Executive Board meets "in continuous session," which in current practice means twice a week. In total, the Board meets several hundred hours a year. In the 2000-05 period, time spent in the boardroom was in the range of 500-600 hours a year, though the number has been closer to the 400-hour mark in the past four years. Directors also spend between 200 to 300 hours in committees. The annual cost of running the offices of the Directors is about US$60 million (excluding the budgets of the Office of the Corporate Secretary, the Independent Evaluation Group, and the Inspection Panel). To this should be added the indirect costs to the rest of the institution of preparing materials for and interacting with the Board.

Management

64. The President is the central figure in WBG governance. He heads the operating staff and is formally charged with conducting the "ordinary business" of the Bank under the direction of the Executive Directors. As chief of the operating staff, the President is responsible for the organization, appointment, and dismissal of staff and Management. As the head of the World Bank Group, the President serves as head of the Group's five arms and chairman of all of its boards of directors, as well as of the Administrative Council of the International Center for the Settlement of Investment Disputes (ICSID). He may also exert influence through the public visibility that his office provides. Along with the power to set the agenda and a significant influence on loan decisions, the President ultimately has considerable discretion in shaping World Bank policies.

65. The organization of the Group's senior management has evolved under each President. Currently it comprises three Managing Directors, one Chief Financial Officer, and 31 vice-presidents occupying 34 vice-presidencies (some VPs hold more than one vice-presidency; this number includes the two Executive Vice-Presidents). Currently, the three Managing Directors are responsible for overseeing a number of regional and functional vice-presidential units.

Strategy formulation

66. As a large and complex organization, the World Bank Group requires a strategy and an effective strategy-formulation process if it is to be successful. That strategy should enjoy widespread support and ownership among the shareholders, and therefore it needs to be discussed and approved by the shareholders' most senior representatives. The strategy should also be based on a realistic assessment of risks, resources, and capabilities, and it

[34] "International Bank for Reconstruction and Development: Report by the President to the Executive Directors with Respect to Matters of Organization and Loan Procedure." Doc. No. R-206, May 22, 1947; last amended on September 11, 1956.

should reflect a collective decision by the institution's shareholders regarding the Group's priorities. The strategy should be possible to translate into an operational plan, one that provides a framework for establishing priorities, managing tradeoffs, allocating resources, and measuring performance. Finally, the strategy should reflect a vision of the Group as an integrated corporate entity, rather than as a collection of separate arms with independent mandates and activities.

67. The Group's current governance arrangements do not support a strategy formulation process along these lines. The problem is not that strategy-generating processes are absent—on the contrary, the Group regularly produces a diverse stream of "strategic" documents. The key concern is that there are no mechanisms by which the shareholders can engage meaningfully in strategy formulation at the appropriate level of seniority. The Development Committee and the Executive Board, as currently structured, lack the capacity to play this role effectively. At the same time, strategies generated by Management tend to be overlapping and all-encompassing, rarely providing effective operational guidance.

A "strategy gap"

68. The Development Committee would seem to be the obvious forum to discuss and set institutional strategy, given the seniority of its members and the fact that all World Bank Group members are directly or indirectly represented there. But as presently structured, the Committee does not serve as the Bank's strategy-setting body. The Committee's advisory nature means that it cannot require the implementation of strategy elements that the Executive Board or Management might prefer to undermine or marginalize. The Committee itself can follow up through agendas and communiqués but has no other instruments to ensure that its recommendations are implemented. Because its composition mirrors that of the Executive Board, the Committee is subject to the same criticisms about imbalances in voice and representation (covered in the next section) . Finally, at most of the Development Committee meetings, the *pro forma* nature of the dialogue reduces opportunities for frank and open exchanges among the Committee members.

69. At the end of each of its two semi-annual meetings, each typically lasting four to five hours, the Committee issues a communiqué. However, this document is not truly a strategy document. Prepared primarily by Executive Directors, its time horizon is short, and it mostly endorses ongoing initiatives and sets the agenda for work to be undertaken for the next meeting or meetings.

70. The Executive Board is not currently well positioned to be an effective forum for strategy-setting, either. Neither the Board as a whole nor individual Directors are formally held responsible for the Group's overall strategic direction. Second, the Board's many other responsibilities do not leave enough time to devote to strategic matters. In FY2009, for example, the Board spent only about 12 percent of total boardroom time discussing issues that could be termed strategic.[35] Third, the relative lack of political seniority of many

[35] Secretariat calculations based on data provided by the Office of the Corporate Secretary.

Executive Directors, and insufficient clarity as to where strategy-setting responsibility lies, may allow the President to sideline the Board in matters of strategy formulation. Finally, with 25 chairs, the Board is too large a body to serve as an effective strategy-setting and decision-making body.[36]

71. The Executive Board's involvement with strategy takes place mainly through the budgeting process, in which the Board has four points of engagement. Among these, the most important is the Board's discussion of Management's Medium-Term Strategy and Finance (MTSF) paper. The document integrates a description of Management-proposed Bank strategy with a discussion of the IBRD/IDA's financial outlook and administrative budget. However, the Board's discussion of the MTSF paper typically adds little to Management's proposals. At the IFC, the strategy process in place is probably more robust, with a discussion of the IFC's Roadmap preceding the budget discussion.

72. The Office of the President, with the support of the Chief Economist, has proposed institution-wide strategies for the Group. For example, a *Strategic Framework* was produced in 2001 and a *Long-Term Strategic Exercise* paper in 2007.[37] Numerous other strategy documents are also produced regularly (e.g., the President's Brief, regional and sector strategies, and country partnership strategies). However, these documents usually provide direction without an analytical framework to balance tradeoffs or guide operations. As a result, the Group has come to be guided by multiple, overlapping layers of strategic priorities, including the Millennium Development Goals, six "strategic themes," and a "two-pillar" framework for reducing poverty.[38] These provide little operational guidance, because they cover vast territory without clarifying priorities.

73. In practice, strategy at the World Bank Group, particularly in the IBRD and IDA, appears to emerge mostly from the aggregation of individual country and regional priorities as interpreted by the directors of country programs. These priorities are then folded into an all-encompassing, thematically-based "strategy" that is primarily developed by the President. It is sensible that the President play a proactive but collaborative role

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[36] Academic literature on Board size has found that boards are most effective when they have at most twelve members. Board size in the private and non-profit sector appears to follow this principle closely. Average board size in top private firms is 13 in Japan, 10.8 in the United Kingdom, and 10.7 in Italy and the United States, for example. The average size of boards in non-profit organizations in the United States is 15. See, for example, Colin Carter and J. William Lorsch, *Back to the Drawing Board: Designing Corporate Boards for a Complex World*, (Cambridge, Mass.: Harvard Business School Press, 2003).

[37] See *World Bank Group Strategic Framework* (January 24, 2001), and *Meeting the Challenges of Global Development: A Long-term Strategic Exercise for the World Bank Group* (2007).

[38] The WBG has made a commitment to helping member countries achieve the Millennium Development Goals, which call for the reduction of absolute poverty and the achievement of sustainable development, among other things. The six strategic themes that drive WBG efforts are (1) helping overcome extreme poverty in Africa; (2) addressing the problems of states coming out of conflict or seeking to avoid state breakdown; (3) helping middle-income countries meet their development challenges; (4) fostering regional and global public goods; (5) helping to advance development in the Arab World; and (6) producing and disseminating knowledge about development. The two-pillar framework for reducing poverty is based on building a climate conducive to investment, job creation, and sustainable growth, and on investing in poor people and empowering them to participate in development.

with the Board in strategy formulation. The problem is that under the current structure, the President tends to maximize the Group's portfolio, resources, and global visibility while avoiding the use of strategic frameworks that make tradeoffs transparent. Instead, strategy documents are designed to find drafting solutions that accommodate all interests. Decisions of strategic significance are then left to Management, to be made as part of the organization's day-to-day business. This reduces shareholder involvement in strategic decisions and prevents the transparent management of tradeoffs.

74. The result is an institutional culture in which the hard choices that are necessary on strategic grounds are not clearly spelled out and are not deliberated with a view to forcing genuine choices based on established decision-making rules. Without a clear framework for setting priorities and balancing tradeoffs, the institution expands continuously into new areas and assumes new missions in response to external demands and pressures. This increases the probability that resources will be spread too thin, or that resources will continue to be allocated to activities that are no longer delivering results. Without a clearly defined institutional direction, it also becomes more difficult for shareholders to hold Management accountable. Finally, the current structure risks producing strategies that do not enjoy widespread support among the membership, alienating members and undermining their trust in the institution.

Voice and participation

75. As an international institution collectively owned by its member countries, the World Bank's governance should provide all members with a fair measure of voice and participation. "Voice and participation" refers to the capacity of each member to have its views represented in the institution's governing bodies, to be involved meaningfully in the decision-making process, and to influence decisions and policies.

76. The concept of fairness is central to any analysis of voice and participation. By "fair" we mean two things. First, the distribution of voice and participation among World Bank Group member countries should be broadly commensurate with their capacity and willingness to shoulder the institution's risk and contribute to its resources. Second, it should provide a strong assurance that the policy outcomes it generates will constitute a reasonable balance of the members' interests. In a cooperative-type institution like the World Bank, this means recognizing that all member countries have a stake regardless of their wealth or size, and that the process of promoting economic development requires taking into account the views of the parties providing the resources as well as of those who must live with the consequences of development interventions.

77. In practical terms, voice and participation in the World Bank Group are determined by (1) the allocation of voting power and decision-making arrangements in the Boards of Governors and Executive Directors and (2) the size and composition of the Board of Executive Directors. We examine each in turn.

Voting power allocation and decision-making arrangements

78. Voting power allocation is based on different principles in each of the Group's financing arms. For this reason, the voting structure of each arm is different, as shown in Table 1 below. We discuss voting power allocation separately for the three largest arms: IBRD, IDA, and IFC.

Table 1. Voting power shares of the top twenty shareholders (2009)

	IBRD		IDA		IFC		MIGA	
1	United States	16.36	United States	12.16	United States	23.59	United States	14.98
2	Japan	7.85	Japan	9.53	Japan	5.86	Japan	4.21
3	Germany	4.48	Germany	6.30	Germany	5.35	Germany	4.19
4	France	4.30	United Kingdom	5.37	France	5.02	France	4.02
5	United Kingdom	4.30	France	4.04	United Kingdom	5.02	United Kingdom	4.02
6	Canada	2.78	Saudi Arabia	3.30	Canada	3.38	China	2.64
7	China	2.78	India	3.13	India	3.38	Russia	2.63
8	India	2.78	Canada	2.69	Italy	3.38	Saudi Arabia	2.63
9	Italy	2.78	Italy	2.57	Russia	3.38	India	2.56
10	Russia	2.78	Poland	2.10	Netherlands	2.33	Canada	2.51
11	Saudi Arabia	2.78	Netherlands	2.02	Belgium	2.11	Italy	2.38
12	Netherlands	2.21	Sweden	1.98	Australia	1.97	Netherlands	1.86
13	Brazil	2.07	China	1.88	Switzerland	1.73	Belgium	1.75
14	Belgium	1.80	Brazil	1.60	Brazil	1.65	Australia	1.50
15	Spain	1.74	Australia	1.23	Argentina	1.59	Switzerland	1.32
16	Switzerland	1.66	Switzerland	1.15	Spain	1.54	Brazil	1.30
17	Australia	1.52	Belgium	1.13	Saudi Arabia	1.26	Spain	1.14
18	Iran	1.48	Norway	1.03	Indonesia	1.19	Argentina	1.12
19	Venezuela	1.27	Denmark	0.98	Mexico	1.15	Indonesia	0.95
20	Mexico	1.18	Pakistan	0.92	Venezuela	1.15	Sweden	0.95
	TOTAL	**68.90**		**65.11**		**76.03**		**58.66**

Source: HLC Secretariat based on information from Annual Reports.

International Bank for Reconstruction and Development

79. Voting power at the IBRD is conferred by two kinds of votes: basic votes and share votes. When the IBRD was founded, all members were allocated 250 basic votes, so that each, regardless of population or economic size, would have a stake in the institution. Share votes, by contrast, reflect the relative shareholdings of the IBRD's members. The IBRD does not have its own formula for calculating shareholdings but has historically used IMF quota shares as a base. In turn, IMF quotas (under the 2008 formula) are calculated using several variables, including measures of the member's GDP, economic openness, variability of the

current account and capital flows, and the amount of international reserves held.

80. Five concerns stand out regarding the fairness of current voice and participation arrangements at the IBRD:

81. **Erosion of basic votes.** Basic votes primarily affect the voice and participation of the Bank's smallest and poorest members. When the IBRD was founded, basic votes represented 10.78 percent of total voting power. Over time, that share eroded to 2.86 percent. In 2008, the Board of Governors agreed to increase basic votes to a fixed level of 5.5 percent of total voting power, but this level remains low by historical standards and relative to that in other multilateral development banks.[39]

82. **Link to IMF quotas.** The second issue concerns the historical linkage between shareholding at the World Bank and IMF quotas. The variables used to calculate Fund quotas were purposefully designed for a cooperative-type institution tasked with helping members manage current account imbalances. Appropriately, the variables capture IMF members' capacity to contribute to the Fund's resources as well as their potential demand for those resources; after all, quotas determine not only voting power, but also how much a country may draw from the Fund. (In the Bank, shareholding determines voting power but has no impact on lending volumes.) However, some of the variables used to calculate Fund quotas are not appropriate for an institution whose mission is to finance economic development and fight global poverty. In particular, indicators of economic openness, variability of capital flows and the current account, and international-reserve levels are poor proxies of the functional and financial relationship that exists between the World Bank Group and its members.

83. **No automatic review.** The IMF reviews member quotas every five years. IDA's charter calls for an automatic review of subscriptions every five years. Yet, there are currently no automatic and periodic reviews of shareholding in the IBRD. This deprives the Bank of a dynamic mechanism to ensure that shareholding and voting power allocation adapt relatively smoothly to changing conditions. Instead, the current system inevitably and periodically gives rise to "voice gaps" that must then be mitigated through *ad hoc*, highly politicized, and usually divisive negotiations.

84. **Voting power imbalances.** For several countries, IBRD shareholdings do not match their weight in the global economy. If measured by the ratio of their IBRD shareholdings to their share of global output, countries including China, Costa Rica, Germany, Greece, Lebanon, Mexico, Qatar, South Korea, the United States, and Vietnam are significantly underrepresented.[40] The fact that such diverse countries could claim to be underrepresented is partly a product of the lack of regular shareholding reviews, which allows IBRD shareholding and actual IMF quotas to diverge. However, what matters most

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[39] For example, in the Asian Development Bank the share of basic votes is fixed at 20 percent of total voting power.

[40] These results obtain regardless of whether output is measured in gross domestic product at current prices, in GDP at purchasing-power-parity, or in gross national income at current prices.

from a fairness standpoint is addressing the claims of countries whose underrepresentation is most severe and historically chronic.

85. More generally, there are strong grounds to argue that a broad principle of equity between developed and developing countries ought to govern the allocation of shares and voting power at the IBRD. One argument for equity concerns the collaborative nature of fostering economic development. Today, it is widely understood that there is no unique template for development and that no single party has a monopoly on the knowledge necessary to promote it. Indeed, the success of development interventions depends crucially on constant and meaningful interaction between resource providers and resource recipients.[41] This argument applies not only to specific financing operations, but also to the GPG-related activities that are a growing part of the IBRD's portfolio and to the setting of the Bank's overall development framework, strategies, and policies.

86. Also, some consideration should be given to the argument that since a substantial part of the IBRD's income stems from profits it obtains from the interest paid by its developing-country borrowers, this may entitle borrowers to a greater say in how the institution should be run.[42]

87. The principle of equity between developed and developing countries is already recognized in two of the WBG's arms. In IDA, 52 percent of total voting power is earmarked for developed, or "Part I," countries and 48 percent for developing, or "Part II," countries. In MIGA, voting power is split 50-50 between "Category One" and "Category Two" countries (essentially, developed and developing countries). The principle behind the parity in MIGA's voting system is that "countries have an equal stake in foreign investment" and that "cooperation between them is essential."[43] In contrast, at the IBRD, developing and transition countries will have a share of 44 percent after the first phase of ongoing reforms is complete.

88. **Special majorities.** The fifth issue concerns the IBRD's voting structure. The World Bank Group's Boards of Governors and Executive Directors make most of their decisions by a simple majority of the voting power. Voting is commonplace at the governors' level, where special majorities are needed for certain decisions including amendment of the Articles of Agreement (85 percent), addition of elected Board seats (80 percent), and capital increases (75 percent). In the Executive Board, by contrast, voting is extremely rare, and decisions are taken by "consensus." A Board decision is reached when the chairman, after taking stock of the "sense of the meeting," declares that consensus has been reached.

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[41] See, for example, World Bank (1998), *Assessing Aid: What Works, What Doesn't, and Why,* Washington, D.C.
[42] For example, in FY2008, income from the IBRD's net loan margin amounted to US$624 million, or 25 percent of IBRD's gross income for that year.
[43] Commentary on the Convention Establishing the Multilateral Investment Guarantee Agency. Section VI, Paragraph 63. Parity between both groups is achieved through a "parity factor." The parity factor is calculated using a formula that results in assigning an additional number of votes, called parity votes, to every member, so that the aggregate number of votes of Category One members equals that of Category Two members. This Parity Factor is automatically adjusted when there is any change in membership or in the number of shares subscribed that affects parity.

In deciding when consensus has been achieved, the voting weights of the various chairs are a key factor. Therefore, even if votes are rarely taken, the allocation of voting power is actually central to governance and decision making.

89. The allocation of voting power takes on more importance in the context of the so-called "U.S. veto." This applies only to one decision: amending the Articles of Agreement, which requires an 85 percent majority of the voting power. Since the United States has 16.38 percent of the voting power in the IBRD, U.S. unilateral consent is a prerequisite for amending the Bank's charter. Changes to the Articles of Agreement are rare, but the fact that the United States can veto them unilaterally has important symbolic implications, contributing to the sense that the institution is dominated by its largest shareholder.

International Development Association

90. In IDA, voting power is conferred by membership votes and subscription votes. Membership votes, like basic votes in the IBRD, are allocated equally to all members. IDA's members are divided into two categories—Part I countries are the developed countries that originally contributed most of IDA's resources. Part II countries are mostly developing countries, including those that originally borrowed from IDA.[44]

91. The voting power of each Part I member reflects its share of total cumulative financial contributions to IDA, plus its original membership votes. Part I countries pay their contributions in freely-convertible currencies. The share of voting power that Part I countries may hold collectively is capped at 52 percent of the total. The voting power of each Part II member also reflects its contributions, which can be paid in its national currency. The share of voting power that Part II countries may hold collectively is capped at 48 percent. Some of this 48 percent remains unsubscribed, because a number of Part II countries have not made contributions.

Two features of IDA's voting system are problematic:

92. **Weighting of cumulative contributions.** Voting power in the IDA Executive Board is based on cumulative contributions. That is, contributions are not discounted for their time value, so that contributions made, for example, in 1960, and those made in the latest round of IDA replenishment confer the same degree of voice in the Board. Yet, relatively old donor contributions to IDA are less valuable to the institution than relatively recent ones. Historical contributions provide less funding for IDA today because nominal reflows on IDA's highly concessional loans are gradual and lose financial value over their 40-year repayment period. Therefore, if we take seriously the principle that voting power should be commensurate with members' capacity and willingness to contribute to IDA's resources, then the current arrangement is unfair both to new donors and to old donors who want to give more today. The arrangement also does little to encourage new contributions.

[44] This distinction has become less meaningful over time, as Part II countries including China, Egypt, South Korea and Turkey have become IDA donors, and as many formerly low-income countries have stepped into the ranks of middle- and even high-income countries.

93. **Role of IDA Deputies in decision making.** The debate about voting power in IDA is largely symbolic because the most important decisions concerning the Association are taken not by the Board of Executive Directors but by the IDA Deputies. This informal group is composed of senior officials from IDA's (currently 45) donor countries. The IDA Deputies, who often have the rank of deputy minister or director general, agree on major issues of policy and strategy. Decisions are taken by consensus, and there are no votes, no voting power allocations, and no constituencies.[45] The Deputies effectively have the last word on substantive issues, although, legally, the IDA Executive Board and Board of Governors approve replenishment reports and resolutions. In some instances, the IDA Deputies have also leveraged their IDA contributions to influence IBRD policies.

94. The use of Deputies' meetings for substantive decision making in IDA raises governance concerns. First, it reduces transparency; the identities of the Deputies are not publicly disclosed and the decision-making process is opaque. Second, by bypassing the formal governance structures of IDA and IBRD, the arrangement lacks the formal voice and participation mechanisms established by the charters of both organizations. The recent attempt to make Deputies' meeting less exclusive by inviting selected borrower-country representatives to participate in discussions is welcome but does not go far enough. Through the Deputies' arrangement, decision-making power has been separated from shareholding—which negates a basic principle of IDA's original governance structure. Third, the deputies' arrangement creates an accountability gap by de-linking power from responsibility—the IDA Executive Board remains accountable for the decisions ultimately taken by the Deputies, even though it plays only an indirect role in those decisions.

<u>International Finance Corporation</u>

95. IFC voting power is conferred by basic votes, which are fixed at 250 per member, plus share votes, which are allocated on the basis of stock held. Originally, IFC's founders agreed that the initial subscription of each member country should be fixed in relation to the member's stock in the IBRD. Over time, however, the two have diverged because of IFC and IBRD capital increases.

96. Voice and participation concerns raised by the IFC's voting structure are similar to those in the IBRD:

- **Lack of automatic shareholding reviews.** Like the IBRD, the IFC also lacks an automatic and regular process for reviewing shareholding and voting power.

- **Erosion of basic votes.** The erosion of basic votes as a share of total voting power has diminished the voice of the Corporation's smaller and poorer members. When IFC was established, basic votes accounted for 12.28 percent of the total votes. Today, basic votes account for only 1.82 of the total.

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[45] Representatives of IDA borrowing countries have been invited to join discussions in recent years; ten participated in the most recent IDA replenishment.

- **Voting power imbalances.** The principle of equity between developed and developing countries does not currently apply in the IFC, in which developing and transition countries hold only 33 percent of the total voting power. Indeed, the relative shares of developed and developing/transition economies in the IFC are more imbalanced than at the IBRD.

Executive Board composition

97. The composition of the World Bank Group's Executive Board is at least as important as the allocation of voting power in the Group's various arms. Countries that participate directly in Board discussions have better access to information than those that do not, and they are better able to influence their colleagues and shape the Group's decisions, sometimes to a greater degere than their voting power alone would suggest.

98. Two governance concerns stand out regarding Board composition:

- **Overrepresentation of European countries.** European countries (European Union members plus Norway and Switzerland) appear to be considerably overrepresented in terms of the number of chairs they occupy in the Group's Executive Boards. Depending on rotation schemes, European countries occupy eight or nine chairs at any given time—32 or 36 percent of the chairs in the 25-chair Board. The large number of chairs from a single region is a historical legacy that no longer seems appropriate for a global institution and a transformed global economy. This number of European chairs is not in line, for example, with economic weight or population.

  While some European countries are generous donors to IDA (EU countries provided about 60 percent of the donor contributions to IDA15), it is not clear why this should translate into chairs in the IBRD, IFC, and MIGA boards. The larger problem is the absence of transparent and fair principles to govern the distribution of chairs on the Board. If IDA contributions are to determine the allocation of chairs on the IDA Executive Board, this principle should be made explicit.

- **Overcrowding in some constituencies.** The second concern has to do with the "overcrowding" of countries in certain constituencies on the Board. While eight Executive Directors represent only one country each, other directors must represent up to 16 countries (going forward, the precise number will depend on how the WBG's constituencies are regrouped after the planned addition of a chair for Sub-Saharan Africa). Compared to other international organizations with similar memberships, the World Bank has a large average constituency size.[46] This is significant because the larger the constituencies, the weaker the voice of each member and the fewer the opportunities to participate in decision-making.

[46] The average size of multi-country constituencies at the World Bank is 10.9 countries per constituency. For reference, the figures for the WHO and UNDP are 5.6 and 5.3 countries per constituency, respectively.

Accountability

99. Fostering accountability in the WBG is not a straightforward matter. It is not easy to measure the development impact of the Group's operations, and thanks to its preferred lender status the World Bank almost always gets repaid, regardless of the quality of its loans, programs, or policy advice. Thus, there is no price for failure—the organization does not suffer consequences for errors of judgment, policy, or implementation. Those costs are borne only by the borrowers themselves and their citizens.

100. Over time, an extensive institutional machinery has been put in place to generate accountability. Seven bodies, known as "safety net units," are responsible for performance evaluation, risk management, audit, and quality control.[47] More than US$50 million is spent on these functions every year. About 3,000 key performance indicators are used across vice-presidential units to measure inputs, deliverables, outputs, and outcomes. The Executive Board has an Audit Committee to provide oversight of external financial statement audits and internal controls.

101. However, these accountability mechanisms at best can have only a limited impact, for two reasons. First, the multiplicity of indicators and reports is as likely to obscure problems as it is to clarify them. It also overwhelms the people ultimately responsible for holding the institution accountable. Second, even when performance measures and reports are relevant and useful, they risk having a limited impact because the Group's governance structure is not designed to promote accountability at the top—at the level of the Executive Board and senior Management.

102. At the heart of the Bank Group's accountability problem is the fusion of three functions in the Executive Board: political representation, management, and oversight. This fusion gives rise to several conflicts of interest that undermine the institution's capacity to perform some of those functions optimally. Several aspects of the current governance structure must be examined: the delineation of responsibilities among governing bodies, the "dual duty" of Executive Directors, the selection and accountability of the President and senior Management, and the governance of the Group's safety net units.

Division of labor and responsibilities

103. The delineation of responsibilities between Board and Management has been identified as a central issue of accountability in the World Bank Group, including by the Executive Board's own Working Group on Internal Governance. Three concerns emerge regarding the current division of responsibilities.

- **Ambiguous division of labor.** The division of labor between Board and Management is ambiguous. In some instances, disputes have emerged on whether a

[47] These are the Independent Evaluation Group (IEG), the Inspection Panel (IP), the Compliance Advisor/Ombudsman (CAO), the Independent Audit Department (IAD), the external auditors, the Quality Assurance Group (QAG), and the Integrity Vice-Presidency (INT).

particular decision is for Management to recommend and for the Board to approve or turn down, or whether it falls under the Board's prerogative to direct the President. (The President carries out the ordinary business of the Bank "under the direction" of the Executive Directors.) This ambiguity makes it difficult to ascertain who is responsible and who should be held accountable.[48]

- **Executive role of Board.** The second, more serious, problem relates to the "executive" role of the Board. Because under the current division of labor the Board reviews and decides on all financing operations, including loans and guarantees, the Board shares a managerial role with the President and therefore in many cases it cannot hold the President accountable without also passing judgment on its own performance. This gives rise to a conflict of interest that reduces the Board's incentives to carry out its oversight function effectively. If things go wrong, Management can conceivably hide behind the Board's co-responsibility, while the Board can place the blame with Management. With everyone responsible in principle, no one is accountable in practice.

- **Dual role of President.** The President also acts as chairman of the Executive Board. This is not inherently problematic, as long as there are proper mechanisms to ensure that the Board can act independently and override the chairman, if necessary. But this is not the case under present arrangements. As chairman, the President (or a member of senior Management designated by him to chair the Board) exerts significant influence over the Board's agenda and its subtle process of consensus-based decision-making. When chairing, senior Management has a strong incentive to ensure that the Board approves Management proposals quickly and with few changes, and this may conflict with the interest of the Board in thoroughly vetting all Management's proposals. The conflict of interest is especially pronounced when a member of senior Management chairs Board discussions dealing with issues directly under his or her responsibility.[49]

Dual duty of Executive Directors

104. Under current governance arrangements, Executive Directors at the World Bank Group have an ambiguous status. They are not "ambassadors" or "permanent representatives" of governments, as are their counterparts at the OECD, WTO, or most United Nations agencies, but neither are they Bank staff accountable only to the institution. Because of their hybrid status, Directors have two sets of duties—their representational duties to their governments and their fiduciary duties to the membership as a whole.

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[48] This issue was raised by the Working Group on Internal Governance in 2008 and by the Ad Hoc Group that investigated staff rule violations by the President in May 2007. See "Second Report of the Ad Hoc Group," R2007-0089, May 14, 2007.
[49] The charters of the Bank's two private-sector arms, IFC and MIGA, provide for the separation between the President and the chairman of the Executive Board: the chairman must always be the IBRD's President, but the IFC and MIGA presidents can be different individuals. In practice, however, the IBRD President has almost invariably occupied both positions. In turn, the IBRD President has then appointed an Executive Vice-President (EVP) to head each of IFC and MIGA.

Fiduciary duties include institutional oversight and the management of financial and reputational risk.

105. Executive Directors' representational and fiduciary duties conflict at least occasionally, and Directors are compelled to balance them.[50] The problem is that current governance arrangements create strong incentives for Directors to prioritize only their duties as the representatives of governments. Directors are routinely evaluated by their national authorities on how well they are defending the national interest, and face sanctions if they under-perform. Appointed Directors may be recalled at any time, while elected Directors can be denied re-election at the end of their two-year term or be pressured to resign. Even Directors who do not serve long enough to seek re-election are motivated by the prospects of promotion or demotion in their home government upon return. Meanwhile, Directors have few incentives to observe their fiduciary duties. With no standards or processes in place for evaluating their performance in this area, neither Directors nor the Board as a whole face consequences for failing to observe their fiduciary duties.[51]

106. Of the various accountability concerns raised in this report, the "dual duty" issue may be the most difficult of all to address conclusively. At one extreme, governments would be loath to support an organization run by Board officials over whom they have no political authority. At the other extreme, a purely political Board without access to professional, independent oversight bodies could mire the institution in political posturing and conflict. The current system—Directors with two sets of duties but few incentives to observe both—is far from an ideal middle ground. In Section IV, we propose a different solution, one that explicitly recognizes the political nature of World Bank Directors but gives them access to professional advisors, independent oversight bodies, and external counsel.

Selection of the President and senior Management

107. The accountability of the President to the membership begins with the presidential selection process. As most codes of good governance suggest, a transparent, inclusive, meritocratic, and rules-based process guided by clear qualifications is more likely to foster presidential accountability than an opaque and non-inclusive one. In an international organization, if the President is effectively chosen by a country or a handful of countries, he or she may feel primarily accountable to that government or governments, rather than to the membership as a whole.

[50] Surveys have not been conducted on this question at the World Bank, but a recent survey of current and former Executive Directors in the IMF—where governance arrangements mirror those of the World Bank—found that 68 percent of those surveyed believe that their dual roles conflict "occasionally" (54 percent) or "frequently" (14 percent). See the IMF Independent Evaluation Office survey undertaken for the report *Governance of the IMF: An Evaluation*, April 2008.

[51] The Board recently started exploring a Board self-evaluation process, which would presumably cover the body's fiduciary duties. Yet, in light of recent experience in the private sector, where Board self-evaluation has been a common practice for years, it seems unlikely that self-evaluation, by itself, will be enough to significantly strengthen Board accountability.

108. Currently, the leadership selection process at the World Bank Group is opaque and excludes most of the membership. There is no formal, transparent process for candidate searches. Though the Articles stipulate that the Executive Board appoints the President, in practice the selection process is *ad hoc* and takes place within the U.S. government, with some consultation with other major shareholders. In every presidential selection process since the IBRD's founding, there has only been one nominee—the one put forward by the U.S. Executive Director. This reflects an unwritten convention that the President of the World Bank must be a U.S. national, while the Managing Director of the IMF must be European.

109. Nationality restrictions apply not only to the IBRD's President. By tradition, the Executive Vice-President of the IFC has usually been a European-country national, and his counterpart at MIGA has always been Japanese.[52] These nationality restrictions narrow the pool of candidates, damage the institutions' legitimacy among the members, and undermine accountability.

110. Reform of the WBG's leadership selection process has been discussed several times, with little progress made. In 2001, a working group reviewed the processes for selecting the World Bank's President and the IMF's Managing Director and issued recommendations for improving them.[53] That group did not call for an end to informal nationality restrictions. Even so, its recommendations were not formally adopted. In its October 2008 communiqué, the Development Committee stated that "there is considerable agreement on the importance of a selection process for the President of the Bank that is merit-based and transparent, with nominations open to all Board members and transparent Board consideration of all candidates."[54]

Accountability of the President and senior Management

111. On the accountability of the World Bank's leadership, there are four areas of concern:

- **Arrangements for presidential oversight need strengthening.** Under the current structure, no WBG governing body can regularly and credibly pass judgment on the President's performance. The Board of Governors is too large to conduct this task, while the Development Committee, as an advisory body, lacks the legal status to do so. As discussed above, the Executive Board, as a co-manager of the institution, faces a conflict of interest when assessing many aspects of presidential performance. Also, individual Board members may lack the seniority within their national political hierarchies they would need to hold the President accountable.

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[52] With one exception from 1977-81, every IFC EVP since 1974 has been a European-country national. The selection process for the most recently-appointed MIGA EVP diverged from the past practice of designation by Japan's Ministry of Finance: a Tokyo-based professional search firm was used, and short-listed candidates, all Japanese, were subject to an intensive interview process.

[53] See "Bank and Fund Working Groups to Review the Process for Selection of the President and Managing Director, Joint Report," April 25, 2001.

[54] Development Committee Communiqué, Washington, D.C., October 12, 2008.

- **No performance standards for the President.** The Codes of Conduct for the Board and for Staff and the provisions of the President's appointment letter guard against certain types of misconduct and ethics violations by the chief executive. However, they do not provide standards for judging key aspects of presidential performance, such as his or her management of the institution, implementation of Board-approved policies and strategies, and the quality of the Group's outputs. Other than the flawed process for re-selecting (or not re-selecting) incumbents every five years, there is no formal process for the Board to evaluate presidential performance. Similar concerns apply to the Executive Vice-Presidents who head MIGA and the IFC.

  These issues have been recognized before; the Board's Working Group on Internal Governance called for the development of a framework for an annual performance review for top management, including the President. The full Board has also recognized that Board evaluations should include the President and Bank officers who regularly engage with the Board.[55] However, this measure has not been implemented.

- **No generalized professional standards for Executive Directors.** The third issue concerns the required skills and expertise of Executive Board members and of the Board as a whole. To carry out their oversight responsibilities effectively, Board members should have expertise in policy lending, development economics, and the environmental and social impact of certain kinds of projects. They should have a background in finance, risk analysis, and some of the technical aspects of sectors in which IFC and MIGA operate. Directors should have accounting and auditing expertise to engage meaningfully with the WBG's internal and external auditors and to scrutinize the budget, and they should have experience reviewing personnel and administrative matters. Of course, not all Directors could have expertise in all areas, but they each should have expertise in several of them. Also, the Board as a whole should have a well-balanced mix of skills and capabilities. However, there is currently no mechanism to ensure that the individuals appointed as Executive Directors fit such a profile, or that the Board as whole has the requisite mix of skills and expertise.

- **Board focus on oversight.** Finally, the operational demands placed on the Board leave little time for monitoring, evaluation, or other oversight activities. In FY2009, for example, the Board spent only about six percent of total boardroom time discussing issues that fall clearly under the category of monitoring and evaluation.[56] Though much of the work done by the Board's committees also falls under this category, the amount of attention the full Board devotes to institutional oversight and evaluation appears to be insufficient. Concerns about the Board's unbalanced focus, which results in insufficient attention to oversight, have been raised by the

[55] "Review of Internal Governance: Conclusions and Proposals," Development Committee, DC2009-0004, April 17, 2009.
[56] Secretariat calculations based on data provided by the Office of the Corporate Secretary.

Working Group on Internal Governance and by the External Review Committee on Bank-Fund Collaboration.[57]

Independence of evaluation and oversight bodies

112. The WBG's system of safety net units has evolved through a series of improvised measures. As a result, the demarcation of responsibilities among these units is not always clear, giving rise to disputes and at times lengthy negotiations about the content of reports. The units have different reporting lines; some of them serve both the Board and Management, others primarily the Board.[58] This evolution has given rise to accountability gaps, some of which were evident during the Bank's leadership crisis in early 2007.[59]

113. Another issue concerns features that reduce the independence of some of the safety net units, including that of the Independent Evaluation Group, which is a central source of oversight and institutional learning. For example, there is no requirement that a majority or even a significant fraction of the IEG's staff be recruited from outside the World Bank Group, as is the case at the IEG's counterpart at the IMF. Also, no cooling-off periods are in place to prevent regular IEG staff from taking World Bank staff positions directly after their service as evaluators.[60] Finally, the IEG's Director General in practice functions as part of the Bank Group's senior Management, for example participating regularly in senior Management team meetings. This increases the risk of "capture" by Management and creates the perception of an unhealthy proximity between evaluator and evaluee. All of these features potentially undermine IEG's independence and external credibility.

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[57] The External Review Committee observed that "Executive Directors should not be involved in managing day-to-day operations, but should be setting strategic directions and overseeing management performance within this strategic framework. Executive Directors should be posing to management the right questions, demanding the answers and holding management accountable for their performance." *Report of the External Review Committee on Bank-Fund Collaboration* ("Malan Report") (2007), p.36.

[58] The World Bank Independent Evaluation Group and the Inspection Panel report solely to the Board. The Internal Audit Department and the Integrity Vice-Presidency are management departments but also report to the Board's Audit Committee. The IFC's Compliance Advisor Ombudsman reports only to Management.

[59] On this issue, see "Second Report of the Ad Hoc Group," R2007-0089, May 14, 2007.

[60] There are restrictions for the IEG's most senior officials. IEG directors are barred from taking jobs in arms of the Group that they were responsible for evaluating, while the Director General is ineligible for appointment or reappointment to the WBG staff.

IV. Recommendations

114. There is no doubt that the international community needs an effective global development bank to tackle current and future global development challenges. Fortunately, that institution already exists in the World Bank Group. But to be fully equipped to address these challenges, the World Bank Group needs governance arrangements appropriate for the problems and the global political economy of the 21st century. Unless the World Bank's governance is modernized, the institution's considerable financial and human resources will be arrested by a governance structure conceived for a world that no longer exists.

115. In the spirit of "repowering" the World Bank Group, the Commission offers five main recommendations. The recommendations have a unifying logic. They are mutually-reinforcing and interdependent—they will only have their intended effect if they are adopted and implemented as a single package.

116. More resources should be made available to the WBG, but this demands greater effectiveness and accountability from the President and senior Management. In turn, this requires governance arrangements that provide Management with more operational flexibility and define more clearly how responsibility should be apportioned between Management and the Board. To be effective, the President needs not only formal authority but also the legitimacy that flows from a selection process that is open to candidates regardless of their nationality. To prevent abuses of power or serious mismanagement, the conflict of interest inherent in the co-managerial role of the Executive Board must be resolved. Finally, from the shareholders' point of view, the World Bank Group will be more trusted not only when it delivers better results, but also when those results perceptibly reflect their own involvement in the institution's governance.

117. The Commission's overall recommendations are the following:

1. Imbalances in voice and participation should be addressed, both in terms of the allocation of voting power and the composition of the Executive Board.

2. The World Bank Group's governing bodies should be restructured—in particular, the political level of the Executive Board should be elevated and its role reoriented toward strategy definition and oversight.

3. The leadership selection process should be reformed to ensure that it is rules-based, inclusive of the membership, and open to all nationalities.

4. The tools and mechanisms through which the Board can hold Management to account should be strengthened.

5. The Group's resource base should be fortified to help it deal with future and global challenges and also as a straightforward means to address existing imbalances in voice and participation.

Recommendation 1. Enhance voice and participation

Board composition

118. **Board consolidation.** The Commission recommends adopting progressively a Board of Directors that is relatively compact and therefore more efficient and effective. The World Bank Group's boards should be reduced in size to 20 chairs from the current 25. Board consolidation should be achieved in part by reducing the number of European chairs by no less than four. This would guarantee that a majority of Board chairs are held by developing and transition countries.

119. **An elected body.** Reducing Board size will inevitably crowd countries into fewer constituencies. To prevent this from reducing the quality of voice and participation, the five currently appointed chairs should all be transformed into elected chairs, and a ceiling should be placed on the number of countries in each constituency (for example, ten per constituency) to ensure a more even distribution of members across the groups and to reduce the average constituency size.

120. These measures would yield several benefits. A smaller Board would be significantly more efficient and effective. Board consolidation as proposed here would address an important imbalance in voice and participation and strengthen the voices of developing countries. Redrawing the constituencies would reduce overcrowding and create more opportunities for developing countries to participate directly. Finally, by ensuring that all Directors represent at least one country other than their own and by eliminating the "two-class" system of elected and appointed Directors, the proposal would strengthen Board collegiality. Addressing the Board's composition is all the more important in light of the recommendations below on restructuring the World Bank Group's governing bodies.

121. Converting appointed to elected chairs will require amending the Articles of Agreement, an endeavor that will take some time to accomplish even if the political will exists. Therefore, in the short term, Board consolidation along the lines proposed above should be accompanied by a regrouping of constituencies so that all 15 elected chairs represent multi-country constituencies. Once the five appointed chairs are converted to elected chairs, the constituencies could then be regrouped among the 20 chairs and the appropriate ceiling in constituency size set. Proposals to enlarge the Board should be resisted; further enlargement would result in an efficiency and effectiveness loss that is likely to outweigh any potential gains in voice and representation.

Voting power allocation

122. The Commission recommends that in parallel to the reform of Board composition, the following principles should guide changes to the allocation of voting power at the IBRD, IFC, and IDA:

- **Regular reviews.** The Commission recommends introducing in the IBRD and IFC automatic shareholding reviews every five years to ensure that the shareholding structures keep up with changes in the global economy and in the circumstances of member countries.

- **Bank-IMF link.** Given the different mandates of the IMF and the World Bank, we recommend abandoning the historical link between IMF quotas and IBRD shareholding and voting power allocation. World Bank-specific principles and formulas for shareholding should be developed, along with a transitional arrangement for their gradual implementation.

- **Basic votes.** The Commission recommends that, with or without the introduction of a Bank-specific shareholding formula, the share of basic votes in total voting power at the IBRD and IFC be raised and fixed at a level much closer to that which existed when these organizations were founded: 10.78 at the IBRD and 12.28 at the IFC. We recognize that dilution of other members' voting power will be very difficult to avoid and may be an inevitable consequence of this reform.

- **Equity.** The balance in voting power between developed and developing countries in the IBRD and IFC should be re-examined, with a view to moving toward an even split between the two groups of countries in each of these organizations. Once reached, the split should remain flexible enough to adapt to changes in the global economy and to the migration of countries from one category to another.

- **Discount factor.** In IDA, the allocation of voting power should move away from the practice of weighting all contributions equally regardless of age. An appropriate discount factor should be introduced so that relatively recent contributions are weighted more heavily than older ones when allocating voting power.

- **Special majority.** The majority required for amending the IBRD's Articles of Agreement should be lowered from 85 to 80 percent.

Recommendation 2. Restructure the WBG's governing bodies

123. To make the World Bank Group more efficient and more accountable, we recommend three interdependent steps regarding its governing bodies. The first two, discussed in what follows, are to raise the political level of the Executive Board and to delegate to Management authority over financing operations. The third, discussed under Recommendation 4, is to strengthen the Board's oversight mechanisms.

Elevating and reorienting the Board of Directors

124. **A ministerial-level Board.** The nature of the Board's duties—setting the institution's goals, broad strategies, and key policies, as well as conducting oversight of its activities—calls for elevating the Board to a higher political level. The Commission therefore recommends that the present Board of Executive Directors be reconstituted as a "World Bank Board" in which the Directors are ministers and their Alternates are officials at the deputy or vice-ministerial level.[61]

125. This change would apply to all four arms of the World Bank Group.[62] The Boards of Governors would remain intact in structure and operations. The reconstituted World Bank Board would meet more frequently than the current Development Committee, though certainly much less often than the current Executive Board.

126. The responsibilities of the reconstituted World Bank Board would include the following:

- Selecting, appointing, and (if required) dismissing the President;
- Approving the Group's overall strategy and direction;
- Making major policy decisions;[63]
- Conducting general oversight of the institution, including periodically reviewing the President's performance;
- Appointing members of the Inspection Panel and Administrative Tribunal; and
- Approving the budget and the Independent Evaluation Group's work plan.

127. Under this arrangement, the Development Committee would become redundant and would be disbanded. Because of the enduring need to enhance Bank-Fund collaboration, the Commission recommends that the IMF continue to participate, through observer status at the World Bank Board, on all matters of concern to both institutions. The Commission

[61] This arrangement recognizes the possibility that the Alternate Director could also be a minister from a different ministry or department in the same country, or a minister from another member of the constituency.
[62] In the long term, the membership may want to consider whether and how the four boards might be legally unified into a single body, replacing the current model of a single board with four incarnations.
[63] "Major policy decisions" is a term that will require careful delineation. It could include, for example, decisions with a significant impact on the institution's financial standing, important changes in the allocation of resources across sectors or arms of the Group, and significant modifications in how the WBG engages with shareholders and stakeholders.

also supports establishing a standing working group at the Board level (and at the IMFC level on the Fund side) to promote Bank-Fund collaboration, as was recommended by the External Review Committee on Bank-Fund Collaboration.

128. **Delegation to Management.** A Board abiding by sound governance principles should not have a co-managerial role. Responsibility for the approval of all WBG financing operations should therefore be transferred to Management.[64] This reform would eliminate the conflict of interest that is currently embedded in the Executive Board's decision-making process. In addition, placing responsibility for most loans and guarantees unambiguously on Management's shoulders would strengthen accountability—as long as other measures proposed here to enhance presidential accountability are adopted as well. This delegation of authority would enhance the Group's flexibility and efficiency by reducing the number of steps necessary for loan approvals. It would also free up considerable Board and staff resources currently devoted to the Board review and approval process.

129. Some will argue that a Board composed of busy ministers who must balance many other responsibilities cannot be effective. But if governments are truly convinced that it is in their countries' interest to have stronger multilateral institutions, they should be able to commit to greater involvement in the governance of those institutions. Further, the workload of the reconstituted World Bank Board would be much better tailored to a high-level Board than is the current Board's workload, because it would only involve decisions appropriate for senior government officials.

130. Elevating the Board's level and delegating financing operations to Management would not require amending the Articles of Agreement.[65] It would necessitate a revision of the 1947 agreement between President and Board and a reinterpretation of provisions related to the Board's meeting "in continuous session." The reconstitution of the Board could take place through the regular elections in the fall of 2010.

131. **Chairing the Board.** The restructured World Bank Board would select a chairman from among its members on a rotating basis. To ensure that the Board remains appropriately connected to the institution, the President would remain a non-voting member of the Board, though he or she would no longer chair the body. This change would require an amendment to the Articles of Agreement.

132. Until the Articles can be amended to change the rules on Board chairmanship, the elevated status of Board directors would change the tenor and dynamics of the Board-President relationship, setting them on a more equal footing and enhancing the Board's independence. Naturally, neither the President nor his or her representatives would chair meetings on the selection of the President or on evaluations of presidential performance.

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[64] In extraordinary circumstances, the Board should be involved in the approval of major financial or financing operations with strategic consequences for the Group. The characteristics of such operations would need to be defined *ex ante*.
[65] The Board's name would not have to be legally changed, as long as there was general agreement on renaming it in practice to signify its new composition.

Managing Directors or Vice-Presidents would be barred from chairing meetings dealing with issues directly under their purview.

Council of Representatives

133. To conduct its work, the Board will surely need support. We recommend that this be provided by an advisory group of officials organized as a Council of Representatives.[66] The Council's composition would mirror that of the Board. Council representatives would be selected by each constituency through a process to be determined internally by that constituency. Representatives should possess professional qualifications agreed upon by the Board. Given the reorganized Board's role and responsibilities, the Council would require less human and financial resources than those currently devoted to the Executive Board. Some of the resources released in the process could be used to enhance the capacity of low-income countries to participate more meaningfully in the institution's governance.

134. Council representatives would represent their Board members (and constituency) when the Board is not in session and would be resident at the Bank's headquarters for a transitional period. The Council would support a significant portion of the Board's oversight activities, though the Board would retain decision-making authority. In practice, Board members and their representatives would work together closely, particularly during the early stages of the transition to the new arrangement. The Board would continue to work through committees as appropriate. Board committee members would continue to be Directors or Alternates, supported by their representatives.

135. The Council's responsibilities would include the following:

- Reviewing and advising on all briefing papers and related documentation necessary for meetings of the Board and its committees;
- Advising the Board on issues of oversight and presidential performance;
- Advising the Board on the performance of the safety-net units;
- Discussing and advising the Board on issues of development effectiveness and institutional performance;
- Considering whether Inspection Panel investigations should go forward (though these decisions would formally be taken by the Board itself); and
- Reviewing reports by internal and external auditors and safety-net units.

136. In addition, representatives would network with their regional and international counterparts, exchange information and development experiences, and keep the membership connected to the institution. Council representatives would meet as a group as needed, maintaining their advisory role.

[66] The Council could be established through the same provisions that currently allow the Executive Board to create committees, except that the Council would be a unique type of committee. The World Bank Articles give the Board wide latitude in terms of committee membership and the rules to select committee members.

137. The Commission recommends that the Council of Representatives be resident for a transition period of up to five years to facilitate the transition to a reconstituted Board. If the accountability framework for Management and other oversight structures and processes are in place by then, there may be no overwhelming reason for the Council of Representatives to remain in residency indefinitely at the Bank's headquarters.[67]

138. Having Board members and advisors resident at the Bank's headquarters has a significant human-capital-formation value for many countries, particularly for those with few opportunities to expose promising civil servants to the work of large international organizations such as the World Bank. This legitimate concern should be addressed by creating positions within the WBG to be occupied by mid-career professionals from developing countries for limited periods of time. Furthermore—should the Bank change human resource policies that in effect provide tenure to highly qualified personnel—more capacity-building opportunities will open up for mid-career officials from developing countries.

Recommendation 3. Reform the leadership selection process

139. Guiding the Commission's recommendations in this area are key principles considered essential for a leadership selection process to be perceived as legitimate and to generate highly capable leaders. These include process that is rules-based, inclusive of the membership, and competitive.

140. The Commission recommends that starting with the current President's successor, a presidential selection process with the following characteristics be adopted[68]:

- Member countries should be invited to nominate candidates during a fixed, publicly-disclosed period before the end of the incumbent President's term.[69]

- Nominations from all qualified candidates should be welcomed, regardless of their nationality. Candidates should be sponsored by the government of a member country, though not necessarily by the government of their own country of citizenship.

- A Nominations Committee of appropriate size and composition should be selected from within the Board to oversee the selection process, evaluate the nominated

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[67] One member of the Commission felt that a resident Council of Representatives should be a permanent feature, as the responsibilities of the Council would need continuing involvement. According to this view, developing-country constituencies would also benefit from an arrangement in which their officials have an opportunity to interact with various aspects of WBG policymaking directly.

[68] One Commission member, although in agreement with the idea that the traditional leadership selection practice should be changed, believes that this report should not be specific on the main characteristics of the new procedure to be adopted.

[69] As is customary in other organizations, the incumbent should first be given the opportunity to announce whether he or she intends to seek another term. A mechanism could be introduced to give shareholders the option of retaining the President without having to initiate a full selection process.

candidates against an agreed list of qualifications, and develop a short list. The Committee would do its best to build consensus around a single candidate. If no consensus candidate emerges, the Board may take a vote.

- The selection of the Executive Vice-Presidents of both the IFC and MIGA should continue to be led by the President, but the process should be rules-based and competitive, without formal or informal restrictions on the candidates' nationality. Job descriptions and qualifications for both positions should be developed and approved by the Board.

Given the dual nature of the unwritten agreement that reserves the Bank presidency to a U.S. citizen and the IMF Managing Director position to a European national, it is important that the leadership selection processes in both institutions be reformed in parallel, facilitating the political bargain that will surely be required.

Recommendation 4. Strengthen Management accountability

141. Without a co-managerial role, the Board will no longer face a conflict of interest when overseeing managerial performance. With support from the Council of Representatives, the reoriented Board will be better able to focus its time and resources on oversight. However, the body must also have at its disposal more effective, professional, and independent instruments to oversee the institution and hold Management to account.

142. The reform of the leadership selection process described above is a crucial first step toward adequate presidential accountability, but other elements of a stronger accountability framework are necessary. We recommend (1) introducing a framework and process for reviewing presidential performance, (2) strengthening the Group's safety net units, and (3) making greater use of external expertise.

Presidential performance review

143. The Commission recommends that the Board introduce a framework for the annual performance review of the President.[70] The framework should provide clear performance criteria, outline how the review process is to work, and propose how assessments should be translated into incentives. The performance review criteria should focus on the President's implementation of Board-approved strategies, on his or her conduct of the ordinary business of the Group, and on the quality of the Group's outputs.

Stronger safety net units

144. **Institutional review.** The Board's Working Group on Internal Governance recommended that Management undertake an institutional review of the Bank Group's

[70] Introducing an accountability framework for Management was recently recommended by the Board's Working Group on Internal Governance. At the IMF, a similar recommendation was made separately by the Committee on IMF Governance Reform and the IMF's Independent Evaluation Office.

safety net units to assess overlaps, gaps, and inconsistencies. The full Board approved this recommendation, and envisages that the review will be carried out in 2010.[71]

145. The Commission endorses this proposal and calls for the speedy completion of the review. It recommends that the review include the following:

- An assessment of the safety net units' mandates to ensure that the division of labor between the units is rational and efficient, and that important areas of accountability are not left out;

- An examination of whether the units' current lines of reporting are appropriate;

- An assessment of the units' governance, paying attention to whether the necessary safeguards are in place to protect their independence; and

- Actionable recommendations for addressing any concerns identified.

146. **Immediate reforms.** In addition, the Commission recommends the following steps to safeguard the real and perceived independence of key safety net units. These steps can be implemented immediately:

- The Board should revise the terms of reference of the Independent Evaluation Group to (1) require that a majority of IEG staff be recruited from outside the WBG; (2) introduce cooling off periods of appropriate length to end the "revolving door" dynamic between regular IEG staff and World Bank staff; and (3) ensure that the IEG Director General no longer functions as a member of senior Management.

- A second external evaluation of the Institutional Integrity Vice-Presidency should be conducted within two years to ensure that the recommendations of the Independent Panel Review of the WBG's Department of Institutional Integrity (the "Volcker Panel") have been fully and properly implemented and are producing the results intended by the Panel.

- As part of the institutional review of the safety net units, the Board should consider whether the IFC's Compliance Advisor/Ombudsman (CAO) should continue reporting to Management only, rather than to the Board. In addition, the Board should consider how best to ensure that the CAO has appropriate means to ensure that its recommendations are adopted and implemented by Management.

Access to external expertise

147. The Commission recommends that the Board make more extensive use of external evaluations to assess critical aspects of the World Bank Group's activities, processes,

[71] "Review of Internal Governance: Conclusions and Proposals," Development Committee, DC2009-0004, April 17, 2009.

strategies and performance. The few such evaluations that have been conducted have usually proven to be valuable sources of fresh insights and bold recommendations.[72] In addition, the Commission also supports the Board's recent proposal to ensure that Board committees have access to outside legal, accounting, and other expertise as appropriate to fulfill their fiduciary duties.[73]

Recommendation 5. Strengthen the WBG's resource base

148. As mentioned in Section II of this report, the economic crisis currently affecting the world economy and the accompanying disruption in capital flows to developing countries has opened a significant financing gap, which the World Bank can help to fill. Rapid and effective action is required. Nine out of ten developing countries have been highly or moderately exposed to the shock, and most of them are hard-pressed to mitigate its impact. Many of them do not have access to IBRD funding, and although IDA funds have been fast-tracked and front-loaded, ultimately IDA's total resources are fixed and cannot be rapidly augmented in response to increased needs. For many of these countries, the crisis threatens to have long-term effects on human development and could reverse past development gains.

149. The WBG has responded commendably to the crisis by increasing its lending levels to US$100 billion over a three-year period. Demand for IBRD loans has already tripled from its FY2008 levels to approximately US$32 billion in FY2009. The World Bank expects that demand will increase until at least 2012 and may exceed its existing lending capacity. Because its current capital base has not expanded substantially, the planned increase to US$100 billion will force the World Bank to lower its lending to below the pre-crisis level for several years starting in 2012. Also, any additional demands on the IBRD to take on mandates related to global public goods will require significant new resources.

150. The Commission recommends strengthening the financial capacity of the World Bank Group. Shareholders will have to decide how best to achieve a recapitalization and where best to direct their funding within the Group. They should also recognize that a recapitalization can have governance implications by opening new avenues for addressing some of the issues raised in this report.

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[72] In the last decade, five major external evaluations have been commissioned. They cover the World Bank's research function (*An Evaluation of World Bank Research, 1998-2005,* 2006), Bank-Fund collaboration (*Report of the External Review Committee on Bank-Fund Collaboration*, 2007), the performance of the WBG's anti-corruption investigative unit (*Report of the Independent Panel Review of the World Bank Group Department of Institutional Integrity*, 2007), the WBG's performance in extractive industries (*Striking a Better Balance: The Extractive Industries Review*, 2004), and the Comprehensive Development Framework (*Toward Country-led Development: a Multi-Partner Evaluation of the Comprehensive Development Framework–Synthesis Report*, 2003).

[73] The Board recently revised its Resolution on Standing Committees, stating that "each Standing Committee may, under exceptional circumstances, obtain advice and assistance from outside legal, accounting, or other advisors as deemed appropriate to perform its duties and responsibilities, giving reasonable advance notice to the Boards and the President of its intention to do so. Appropriate funding from the Board's budget, as determined by the Board, shall be made available for compensation to such advisors." World Bank, "Resolution on Standing Committees," Board Report 49586, July 6, 2009.

V. Conclusion

151. The stakes in reforming the World Bank's governance are high. Some of the most serious and urgent challenges facing humanity today have no hope of solution save through multilateral action. With a central place in the global multilateral system, the World Bank Group is strongly positioned to catalyze multilateral approaches and help design and finance multilateral solutions. But if it is to play its potential role successfully, the institution's governance urgently needs to be modernized so that the World Bank Group has the capabilities and legitimacy necessary to confront the global challenges of our time. Failure to bring the World Bank's governance into the 21st century will undermine one of the international community's most valuable instruments for tackling these challenges.

152. Together, the five components of the governance reform that the Commission proposes—rectifying imbalances in voice and participation; restructuring the World Bank Group's governing bodies; reforming the leadership selection process; strengthening Management accountability, and augmenting the resource base—would go far in addressing the institutional weaknesses identified in this report. The proposed reform would position the Group as a more effective, accountable, and legitimate vehicle for international cooperation in the coming decades. Because the proposed measures are interdependent, they will only have their intended effect if they are adopted and implemented as a single package.

153. Only national leaders can break the gridlock on reform of the World Bank Group: meaningful reforms of multilateral agencies, at least in their broad outline, are unlikely to be decided anywhere but at the level of heads of state and government. It is unlikely that the WBG's Board of Governors will undertake the necessary reforms without clear directives from their national leaders. Nor is it realistic to expect that major steps towards improved governance will be discussed and agreed by the institution's Executive Board acting alone; indeed, the safest route to inaction would be to leave this process of transformative reform solely in the hands of the Executive Board.[74]

154. If national governments truly believe that realizing the benefits and minimizing the downsides of increasing interdependence calls for more powerful instruments of collective decision-making and action, national governments should not regard the agenda presented here with an attitude of "business as usual." Strengthening international institutions, including the World Bank Group, can no longer be an ever-present but never-accomplished objective on the international agenda.

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[74] Although the drafting of this report was completed before the G20 summit of heads of state and government in Pittsburgh on September 24-25, 2009, the leaders' communiqué echoed at least five of the recommendations made in this report: (1) an open, transparent, and merit-based selection of the President, (2) a move toward "more equitable" voting power in the IBRD, (3) a dynamic formula for voting power allocation in the IBRD, (4) protecting the voting share of the smallest poor countries, and (5) ensuring that the World Bank Group has sufficient resources at its disposal to accomplish its mission.