

## **Major Overhaul at the World Bank in Response to Evaluation of its Performance By Nancy Alexander**

The World Bank is undergoing one of the most significant overhauls in its history in response to the findings of a 5-volume evaluation of its International Development Association (IDA).

Entitled, "Review of IDA Internal Controls," the evaluation responds to a mandate set forth in IDA's 14<sup>th</sup> Replenishment calling for "an independent comprehensive assessment of IDA's control framework, including internal controls over IDA operations and compliance with its charter and policies." It focuses on: reporting on financial and procurement matters, compliance with laws and regulations, and effectiveness and efficiency of operations. The evaluation was conducted by the World Bank's management and its oversight bodies – the Internal Audit Department (IAD), the Department of Institutional Integrity (INT), and the Independent Evaluation Group (IEG).<sup>1</sup>

No international financial institution (IFI) has had its operations subject to an evaluation of comparable scope and depth. At the same time however, an evaluation examining the development-related impacts of IDA's operations would additionally have been welcome.

### **What did the evaluation find?**

The evaluation goes into some depth recounting the problems with reporting and compliance with respect to fraud and corruption in financial management and procurement. This helps explain why conditionality related to public sector governance (including in the areas of procurement, financial management, and budget transparency) represented over 51% of all conditions during fiscal 2006-2009.<sup>2</sup>

Four findings of the evaluation follow:

Culture of Approval In noting the "significant deficiency" related to "management oversight of project processes," the evaluation echoes the findings of an earlier evaluation. The 1992 evaluation led by Vice President Willi Wapenhans (which engaged civil society) found that the World Bank had a "culture of approval" rather than of "results." That is, staff focused more on getting proposed operations approved by the Board of Executive Directors than on achieving results on the ground.

In the current evaluation, the Department of Institutional Integrity notes that staff "promotion is not closely linked to project performance or outcomes but to project approvals" and that staff fear retaliation by managers for identifying and reporting corrupt practices. Management's assessment of entity-level controls found that accountability, compliance and internal control responsibilities are not adequately reflected in performance management tools..."

Lack of an Effective Risk Management Framework The evaluation found that the Bank lacks a Risk Management Framework and that, due to this problem, risks materialise or have the potential to do so. Moreover, under-reporting of risks by staff reduces the reliability of portfolio performance indicators which "are no longer as meaningful for tracking and managing portfolio performance" because of frequent failure of staff reports to flag risks. The lack of candor in staff reports "is especially troubling as Management relies heavily on the indicators of projects at risk [and] the fact that they may be flawed and systematically understate risk raises a concern about assertions on the effectiveness of IDA's operations." Indeed, "success rates are neither consistent with reality nor representative of the operations portfolio overall."

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<sup>1</sup>Evaluation:

(<http://web.worldbank.org/external/default/main?noSURL=Y&theSitePK=1324361&pagePK=64253958&contentMDK=22142204&piPK=64252979>)

<sup>2</sup> World Bank, Development Policy Lending Retrospective: Flexibility, Customization and Results, 2009, p. 10.

In the Bank's new proposed Risk Management Framework, social and environmental risks represent two out of thirty-eight types of risk.

Lack of Compliance with Operational Policies The evaluation found that "some 50% of Operational Policies (OPs) and Business Procedures (BPs) are not directly linked by Management to any key controls or business processes." These primarily pertain to the appraisal and supervision of investment lending. Management expressed the view that the lag in updating these policies and procedures is partly due to the fact that "investment lending (IL) is the most over-regulated Bank instrument and is subject to approximately 30 of the Bank's operational policies and procedures, many of which are misaligned with the current practice and evolution of the IL instrument."

Staff concurred with the above findings. In a "Risk and Opportunity Workshop" staff highlighted their frustration with the burdensome nature of policies and procedures. The evaluation stated that "The fact that staff find policies burdensome and costs of controls exceeding the benefits is worrisome in its implications for the likelihood of compliance with Bank policies."

Reform of Investment Lending Due to the multiplicity of Ops and BPs that are applied to investment lending – some of which are perceived to be out-dated or irrelevant - the Bank has decided to "consolidate and rationalise the policies and procedures governing IL by creating a single principles-based 'umbrella' policy for IL that would govern IL projects from preparation through completion." According to the "Review of IDA Internal Controls," the new IL policy would:

- reflect main principles governing IL
- replace the current "one-size-fits-all" requirements with a risk-based approach to IL due diligence, processing, and design options
- replace the rigid "ring-fenced" project model with a flexible menu of design and funds flow options to better meet development and funding needs of IDA's varied clients.

If the project model is replaced, it is not clear whether the environmental and social safeguard policies will continue to apply. As it is, these policies relate only to projects and not programs (e.g., Development Policy Loans and Poverty Reduction Strategy Credits). It is likely that these safeguard policies will provide standards for the laws and regulations of recipient countries, however, to date, this "country systems" approach has sometimes been ineffectual.

Due to the World Bank's increased reliance on program operations rather than projects, the following paper by the author focuses on some of the challenges of this approach:  
<http://www.boell.org/navigation/index-469.html>