

Report on MDB Reform Commitments

Consistent with Section 7082 of the Consolidated Appropriations Act, 2012 (Pub.L. 112-74) and following its initial report of February 22, 2012, the Department of the Treasury is providing a report detailing the extent to which the World Bank, African Development Bank (AfDB) and Inter-American Development Bank (IDB) have continued to make progress in eight areas.

The report highlights significant developments since submission of the initial report. Major areas of discussion include: 1) the World Bank's procurement review; 2) implementation of whistleblower policies at the Multilateral Development Banks (MDBs), especially the IDB; and 3) initial programs under the World Bank's Program-for-Results (P4R) instrument.

We report on progress in eight areas.

(1) Implementing specific reform commitments agreed to by the World Bank and the AfDB as described in the Pittsburgh Leaders' Statement issued at the Pittsburgh G20 Summit in September 2009 concerning sound finances, effective management and governance, transparency and accountability, focus on core mission, and results.

The Pittsburgh Leaders' statement stated that "additional resources must be joined to key institutional reforms to ensure effectiveness: greater coordination and a clearer division of labor; an increased commitment to transparency, accountability, and good corporate governance; an increased capacity to innovate and achieve demonstrable results...."

Following the G-20 Summit, the shareholders of the World Bank and the AfDB negotiated reform commitments consistent with the Leaders' statement, in conjunction with shareholders' commitments to provide additional resources. As discussed in this report and the preceding report, the World Bank, the AfDB, and the IDB have undertaken robust implementation of and made substantial progress in these reform commitments since September 2009.

World Bank:

- *Sound Finances:* As reported previously, in 2010 the World Bank adopted a new and significantly improved financial framework requiring that major financial decisions take into account implications for the administrative budget, pricing of loans, and net income transfers in a unified, comprehensive analysis. This was an important policy change because it compels the Bank and its shareholders to consider trade-offs in the Bank's budgetary process.

This framework will now be the basis for a discussion of the World Bank's upcoming revision to its capital adequacy framework. The capital adequacy framework is designed to protect the Bank's financial soundness (and, by extension, its AAA rating) through a series of guidelines which ensure prudent management of the Bank's assets and liabilities. Currently, projected income on the Bank's loans to client countries has declined, in large part because of recent decreases in long-term market interest rates. This phenomenon could create pressures on the Bank's balance sheet in several years'

time. In the upcoming capital adequacy framework review, Bank Management and the Board of Directors will use the new framework to consider adjustments to the main determinants of long-term capital adequacy (budgets, pricing, and transfers to IDA). We expect to have an open dialogue about potential tradeoffs that can be made over time which will ensure financial sustainability without either additional capital from shareholders or dramatic changes to the current financial framework.

- *Effective Management and Governance:* Since the last report, Management has completed the second phase of its comprehensive review of World Bank compensation and benefits that will run through FY14. Phase 1 of the compensation review, completed in February 2011, led to a revised approach for determining the salary increase envelope. It increased the alignment between pay and staff performance by eliminating the “comparatio,” which is the formula that the World Bank used as the basis for its annual pay increases (and which was historically automatically applied). We strongly supported the elimination of the comparatio, as we believe the methodology was inherently flawed.

Phase 2 of the compensation review, which was completed in January 2012, addressed Management’s commitment to review two additional elements of the staff compensation methodology: a) the comparator sector weighting methodology (i.e., the mix between private sector, public sector and academic institutions that the World Bank uses as the basis for its wages and salaries); and b) the annual variable pay portion of the total compensation market data.

The new compensation methodology slows down the rate of salary and benefits growth, eliminates automatic cost-of-living increases, and more strongly links pay to performance. In June 2012, the Board applied the new methodology to FY13 staff compensation, resulting in a more modest salary increase than would have resulted under the previous methodology. In addition, all salary increases were distributed based on performance, with no increase exceeding 5.7 percent.

- *Transparency and Accountability:* Since the last report, the World Bank launched a process designed to improve the transparency, oversight and planning of its partnership programs. Partnerships, including trust funds, are an integral component of the Bank’s work, and are used to achieve dedicated objectives that neither the Bank nor its partners can as effectively achieve by working alone. They are typically multi-country in scope and address development challenges that involve cross-border spillovers, such as environmental degradation and food security.

The World Bank has 186 Partnership Programs involving over 370 partner entities, including donors, recipient countries, civil society organizations and the private sector. The Bank’s role in these programs varies substantially: it can serve as a chair, member, adviser, or observer. In many cases, other organizations also serve as implementing bodies.

There are 70 trust-funded global and regional partnerships programs (GRPPs) in which the Bank is involved. These partnership programs aim to further global and regional

public goods. Management does not consider trust funds managed under GRPPs as a separate trust fund category with separate accountabilities. A 2011 IEG report of all Bank trust funds recommended that the Bank adopt a three-pillar structure for trust funds, consisting of: country-specific trust funds, GRPPs, and umbrella facilities. Umbrella facilities would consist of multi-donor funds to be deployed in multiple recipient countries. The IEG report also called for stronger oversight and risk management of GRPPs. Executive Directors have expressed support for IEG's findings and have encouraged Management to draw on the idea of umbrella facilities.

- *Focus on Core Mission:* Ahead of the April 2012 World Bank-International Monetary Fund Spring Meetings, the Bank released its updated Modernization Strategy: “Results, Openness and Accountability.” Under this strategy, Management articulated its key priorities, which are to: 1) enhance simplification, quality assurance, and accountability, including developing options to reduce overlaps and duplication in the structural organization; 2) develop quality and impact indicators for knowledge, and improve governance and management of the knowledge portfolio; 3) continue to improve the measurement of results, in particular by building in client and beneficiary feedback; 4) adopt a package of measures to scale up work in Fragile and Conflict-Affected States; 5) make attention to gender part of the Bank’s DNA – including from project conceptualization through monitoring and evaluation (M&E)—including incorporation of gender indicators in M&E frameworks; and 6) enact human resource reforms, in particular with the introduction of a new approach to performance and talent management, benefits and compensation, and global mobility, and begin to deepen synergies and collaboration across the Bank. Treasury has been broadly supportive of this agenda, while cautioning that the “simplification” agenda not be code for a diminished application of the Bank’s safeguards and controls.
- *Results:* As previously reported, the World Bank’s key tool for reporting on results at the corporate level is an integrated results and performance framework known as the “Corporate Scorecard,” which was introduced Bank-wide in fall 2011. The Corporate Scorecard uses indicators in four areas (or tiers) to track development results and elements of Bank performance. Its key objective is to assess whether the Bank is functioning efficiently and managing its operations and services effectively. Specifically:
 - Tier I indicators show progress in long-term development outcomes of the Bank client countries as a group, which enables the Bank to assess progress at a very high level (e.g., global/regional trends in health, education and poverty levels). Because of the myriad factors that influence these outcomes, they are not the basis for assessing Bank programs, but do provide a useful snapshot of changes in global welfare.
 - Tier II indicators show country-specific results, using data on human development, infrastructure, and access to services for the poor and the vulnerable.

- Tier III indicators show the effectiveness of the Bank's products and services in its client countries. To ensure objectivity, the Bank includes ex-post evaluation ratings of program effectiveness provided by the IEG.
- Tier IV indicators are designed to capture the main dimensions of the Bank's organizational efficiency and modernization agenda to determine if it is becoming more responsive and accountable.

In September 2012, the fourth Corporate Scorecard was published and disclosed online in October. Key findings included:

- The percentage of people living on less than \$1.25 a day and the number of poor declined from 43 percent in 1990 to 22.7 percent in 2008. This would mean that the first Millennium Development Goal of halving extreme poverty from its 1990 level has been achieved before the 2015 deadline.
- During fiscal year 2010-2012, the World Bank supported procurement system reforms in 11 countries, strengthened civil service and public administration systems in 28 countries, improved public financial management systems in 57 countries, and strengthened tax policy and administrative systems in 27 countries.
- In terms of operational effectiveness, 91 percent of approved projects had clearly formulated development objectives. This increase represents an 8 percentage point improvement over 2009.
- Gender mainstreaming has continued to progress, with the share of country assistance strategies and programs drawing on and discussing the findings of a gender assessment increasing to 100 percent in both FY11 and FY12. In addition, 55 percent of recent operations now have gender informed design. We want to press the Bank to ensure that it is setting a high bar for assessing whether or not operations are gender informed.
- Portfolio performance in FY12 remained similar to FY11, with 85.5 percent of active operations in satisfactory status. Despite this favorable figure, we wish to ensure the highest quality portfolio review process and will continue to press management for transparency and accuracy in the ratings process.
- As previously reported, the Bank has made continuous improvements that allow it to allocate and use its resources more efficiently while operating within a flat budget environment since FY06. At the same time, the Bank significantly scaled up its response to the recent global financial crisis by doubling lending, improving the speed of project preparation, and shifting resources to the provision of implementation support.

African Development Bank (AfDB):

- *Sound Finances:* As reported previously, the Bank is moving towards an income management model that balances net income projections, administrative costs, loan charges and the notional lending program. The Bank's prudent financial management has resulted in the reaffirmation of its AAA rating from the major credit rating agencies.
- *Effective Management and Governance:* Since the last report, the AfDB has advanced its risk management and anti-corruption agendas.
 - Risk Management. The AfDB took an important step to strengthen risk governance by formalizing the establishment of a Credit Risk Committee. The objective of the Committee is to monitor the Bank's portfolio, provide credit assessments, and advise Management on risk mitigation measures. In addition, the Bank has agreed to create a Head of Risk position, in line with MDB best practices, by the end of 2012.
 - Anti-corruption. In June 2012, the AfDB followed the World Bank and other MDBs in approving a new sanctions policy that enables it to implement the cross debarment agreement among international financial institutions. As Chair of the Audit Committee during the development of the policy's implementing regulations, the U.S. played a critical role in achieving important objectives. These included: 1) clarifying the definition of "sanctionable practice" to ensure that there is no ambiguity; and 2) calling for the establishment of an independent Sanctions Commissioner responsible for determining sanctions, along with a separate appeals body.

The U.S. also pressed the AfDB to delegate cases of staff misconduct that do not constitute fraud or corruption to Human Resources personnel, enabling the Integrity and Anti Corruption Department (IACD) to dedicate its time to corruption cases. In addition, the Bank has taken steps to strengthen IACD by creating two separate divisions (i.e., a preventative division and an investigation division). Finally, IACD is developing key performance indicators so its effectiveness can be measured.

- *Transparency and Accountability:* Since the first report, the AfDB has adopted a new policy on disclosure and access to information, with the aim of strengthening the transparency and accountability of the Bank. In line with best practices across the MDBs, the new policy includes a shift from a "positive list" approach, in which disclosure is considered exceptional, to a presumption of disclosure, or "negative list" approach, in which disclosure is considered the default. The policy sets deadlines for responding to requests for information and establishes an appeals process for requests that are denied.

- *Focus on Core Mission:* In late 2011, AfDB Management tapped a group of experts to develop a Long Term Strategy (LTS), a process that we expect will be finalized at the end of 2012. The LTS builds on the Bank's Medium-Term Strategy, which provides a clear framework for greater operational selectivity. The LTS will consolidate the Bank's success in infrastructure, regional integration, governance, and private sector development while striving to respond to the changing needs of a diverse continent that includes fragile states, newly emerging frontier markets, and North African nations in transition. With an overarching focus on inclusive and green growth, the Bank will also move away from a strategy anchored primarily in outputs to one that is more outcomes-oriented. Finally, the Bank will strive to consolidate and expand its ability to measure and communicate results as the key driver of institutional performance.

- *Results:* In May 2012, the AfDB published its second Annual Development Effectiveness Review (ADER), which assesses the Bank's developmental impact by providing an overview of Africa's development trends and describing the Bank's contributions to those results.¹ Key findings included:
 - Africa is going through its most dynamic growth period in recent times. The continent has achieved growth rates above six percent for most of the past decade, driven largely by private sector growth. The African private sector generates 70 percent of Africa's output, two-thirds of its investment and 90 percent of employment. However, while economic growth has lifted many households out of poverty and the number of middle-income households is increasing, inequality in Africa is still high and growing. Africa's Gini index—a measure of income inequality—has widened over the past six years, as it has in other developing regions, and is hardly better than it was in 1980.

 - Africa continues to perform poorly on standard governance indicators, scoring 30 percent lower than the Asian average and 60 percent lower than industrialized countries, and conflict and political stability remain serious constraints on Africa's growth. Environmental degradation is also a serious and growing problem.

 - Major areas where progress is needed to accelerate and sustain growth are: 1) regional integration; 2) infrastructure development; 3) agricultural productivity; 4) investment in health and education; and 5) access to finance. The AfDB provides valuable support in all of these areas. The Bank plays an especially critical role in regional projects, due its role as Africa's leading financier. More than 40 percent of Bank lending goes towards infrastructure development to improve connectivity for marginalized areas and address rural-urban imbalances.

¹ Similar to the World Bank's Corporate Scorecard, the ADER uses four tiers: 1) level one measures Africa's overall development progress in nine areas, including growth, human development, and public service delivery; 2) level two presents the aggregate outputs of Bank operations in the same nine areas, showing how the Bank has contributed to Africa's development; 3) level three assesses how well the Bank manages its portfolio of operations; and 4) level four describes how well the Bank manages its institutional effectiveness, measured against progress in areas like decentralization and human resource management.

- At the end of 2011, the AfDB’s portfolio consisted of 769 operations with a combined value of \$34 billion. The ADER concluded that the Bank has improved the level of supervision of its operations, with the level of problem projects declining to below five percent in 2012. In addition, the overall proportion of operations rated satisfactory reached 93 percent, a major improvement over 2010 and just short of the Bank’s target of 95 percent. However, both the disbursement ratio—representing the overall pace of disbursement— and the average lapse of time between approval and first disbursement remain a cause of concern. The Bank is conducting a study on first disbursement to better understand why the lapse of time is so long, and to formulate appropriate measures to address this.
- Human resource management remains one of the AfDB’s biggest challenges. Both its premature attrition rate—staff leaving before completion of their first contract, as a share of total departures—and the vacancy ratio, which stands at 15 percent, have made it difficult for the Bank to make progress in this area.

(2) Implementing specific reform commitments agreed to by the IDB in Resolution AG-7/10 “Report on the Ninth General Capital Increase in the resources of the Inter-American Development Bank as approved by the Governors on July 12, 2010, including transfers of at least \$200,000,000 annually to a grant facility for Haiti.”

As reported previously, the IDB is implementing its commitments under the Ninth General Capital Increase (GCI-9). (See Annex 1 for a detailed status update.)

Since the last report, the major development was the approval of the second annual transfer to Haiti of \$200 million. In addition, the IDB has continued to support tangible improvements in Haiti, including:

- enrolling nearly 35,000 students in preschool and primary school through a tuition waiver program;
- training more than 2,200 15-24 year old youths in areas such as construction, agricultural skills, garment manufacturing, and tourism;
- installing new individual water connections for 1,700 households in Port-au-Prince; and
- vaccinating nearly 1.5 million animals against swine flu, anthrax, and Newcastle disease.

Moreover, there are several developments that we assess are contributing to the objectives of the reforms embedded in the GCI-9 agenda.

For example:

- The IDB has launched a new inter-active tool, “Map Americas,” an online platform that uses the latest geo-mapping technology so viewers can easily view and track the results of development projects financed by the Bank.²
- In March 2012, the IDB released its 2011 *Development Effectiveness Overview* (DEO), which gave a positive assessment of the Bank’s increased emphasis on incentives, outcomes, and sustainability in project development.³ Specifically, the DEO:

- welcomes the use of incentives for improving final health outcomes, including conditional cash transfers, as well as benefits for providers who improve the quality and quantity of health care services;
 - commends the IDB for focusing more on outcomes, instead of outputs, as in the case of a water sanitation project in Bolivia where key indicators go beyond the normal output measures (e.g., numbers of additional recipients of clean water) and focuses instead on health outcomes amongst children (particularly those related to diarrhea, parasites, and respiratory diseases); and
 - highlights the progress on environmental, developmental, and financial sustainability of all the IDB’s operations (e.g., as evidenced by a water, sanitation and hygiene program in Mexico that was developed to reduce the risk of illness caused by unsafe water and bathroom facilities, as well as to cut the rate of illness-related absenteeism).
- Finally, the IDB’s independent Office of Evaluation and Oversight (OVE) is in the final stages of reviewing the IDB’s process for measuring project results. OVE reports that it has had a productive relationship with Management on the discussion of its findings. We anticipate that OVE’s review will show considerable progress, while also including recommendations (supported by Management) for improving the Bank’s project completion reports.

(3) Implementing procurement guidelines that maximize international competitive bidding in accordance with sound procurement practices, including transparency, competition, and cost-effective results for borrowers.

World Bank:

Since the last report, the World Bank launched a comprehensive review of its procurement policy and procedures. The rationale for the review is that the Bank’s procurement policies were originally designed for infrastructure investments, and therefore are not necessarily well suited to its evolving portfolio, new lending instruments, and new ways of doing business (ranging from

² <http://www.iadb.org/en/mapamericas/mapping-results-for-latin-america-and-the-caribbean,5786.html>

³ <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=36726884>

Public-Private Partnership financing to performance-based and community-based activities), all of which now make up a significant share of the Bank's operations.

The ultimate objective of the review is to revise the World Bank's procurement policies, internal procedures, and practices to ensure that they remain in tune with the changing world. To make it fully comprehensive, the Bank has asked stakeholders to "take a step back" and start from "first principles." This is a major, multidimensional undertaking with significant implications for the Bank's operations.

The World Bank has committed that the review will be "methodical, inclusive, thorough, and evidence-based." Bank Management affirmed that a key dimension of the review is to gain feedback from clients and other stakeholders on what issues they see as important and where improvements can be made.

The review is being carried out in two phases and is expected to take about two years to complete. The first phase, to be completed by December 2012, will identify and elaborate on areas where changes may be needed. The identification of these issues will be based on the results of consultations with stakeholders (already underway), review of literature, advice and inputs from a group of international experts, analyses of the World Bank's procurement track record, and benchmarking with other organizations.

The end product of this first phase will be a set of recommendations that lays out: (i) the overarching framework for the future evolution of the Bank's procurement policies; (ii) the principles to guide the formulation of those policies and how they are to be applied; and (iii) the specific parameters and dimensions that could be modified, along with their justification. This phase will benefit from the results of a parallel effort by the IEG to evaluate the World Bank's procurement policies.

During the second phase, which is scheduled to begin in early 2013, the World Bank will begin drafting a revised statement of operational policies and accompanying procedures, including recommendations of specific revisions to the procurement and consulting guidelines applicable to borrowers. These will ultimately be presented to the Board of Executive Directors for their consideration. The revised guidelines are expected to undergo several iterations with the final version expected to be approved no earlier than end-2013.

Treasury fully recognizes the high stakes associated with this review, and is committed to ensuring a level playing field for companies bidding on World Bank-financed contracts. To maximize our input in the process, we will be meeting separately with stakeholders, World Bank Management and other procurement experts, and will remain closely engaged throughout the process. We will also seek to ensure that the Bank's consultative process is adequately robust.

AfDB:

In July 2012, the AfDB approved and implemented a new sanctions policy under its procurement guidelines, bringing it in line with the other MDBs. Under this policy, sanctioned entities at any

MDB will be ineligible to bid on AfDB contracts and these entities will be published on the AfDB's external website.

IDB:

The IDB approved and implemented a new sanctions policy, bringing it in line with the other MDBs. Under this policy, debarred firms are ineligible to participate in any IDB-financed contract, and ineligibility may extend to any firm or individual that directly or indirectly controls the debarred firm or any firm that the debarred firm directly or indirectly controls. Currently, the Bank website contains information on more than 50 firms sanctioned due to cross-debarment.⁴

(4) Implementing best practices for the protection of whistleblowers from retaliation, including best practices for legal burdens of proof, access to independent adjudicative bodies, results that eliminate the effects of retaliation, and statutes of limitation for reporting retaliation.

World Bank:

As reported previously, the World Bank's most recent whistleblower protection policy, issued in 2008, expanded the scope of protection for whistleblowers to be consistent with international best practices.

Since the last report, we have sought information on the implementation of this policy from World Bank staff and Management. The Bank notes that, over the last three years (2009-2011) and through July 2012, the Office of Ethics and Business Conduct (EBC), the Office of Institutional Integrity (INT), the Peer Review System (PRS), and the Administrative Tribunal have received and dealt with the following whistleblower retaliation cases:⁵

Office of Ethics and Business Conduct: The EBC reports that it received 26 allegations of whistleblower retaliation. In 16 of these claims, the allegations did not meet the criteria for retaliation (i.e., the alleged retaliatory measure was not taken in connection with a protected activity, or it was deemed a feared future action was either insufficiently specific or too far off in the future to be considered under the Bank's policy). In seven other claims, the EBC concluded that the evidence was insufficient or unfounded to support a claim of retaliation, as it found clear and convincing evidence that the employment action would have been taken absent the employee's report of misconduct. Two claims, presented in 2012, are still under review and one of these claims alleged retaliation based on alleged misconduct dating from 2008, which predated the EBC's mandate to investigate staff misconduct. This claim was ultimately brought (unsuccessfully) to the World Bank Administrative Tribunal.

⁴ Available at <http://www.iadb.org/en/topics/transparency/integrity-at-the-idb-group/sanctioned-firms-and-individuals,1293.html>

⁵ Because the data from these offices has been reported in the aggregate, and employees may present their claims through multiple channels of the Bank's Internal Justice System, there may be double-counting of cases that have been presented to multiple units for review. For example, staff members who file cases raising claims of whistleblower retaliation are encouraged to also report their claims to EBC.

The Office of Institutional Integrity: The Office of Institutional Integrity reports that 233 staff and consultants made protected disclosures to INT of alleged misconduct that fall within the framework of the World Bank's Whistleblower Policy. During the same period, and unrelated to the 233 reports of suspected fraud or corruption, INT received seven complaints that could be characterized as alleging whistleblower retaliation. Six of these were referred to EBC and are among the 26 claims referred to above. The seventh, which was filed for information only, came to INT based on a Securities and Exchange Commission (SEC) referral. In the complaint to the SEC, the former Bank staff member raised generalized concerns regarding Bank governance, but was unable to provide any specific information or allegations when asked. This particular staff member's previous complaints to INT concerning allegations of misconduct in Bank operations had been exhaustively investigated and ultimately found to be without merit.

Peer Review System: PRS reviewed six cases that raised allegations of whistleblower retaliation, but did not find that any of them showed a sufficient basis to recommend remedial action to address retaliation for whistle blowing.

Administrative Tribunal: The Administrative Tribunal considered 13 cases of alleged whistleblower retaliation. Six of these were decided in favor of the complaining staff members, while seven were decided in favor of the World Bank.

AfDB:

As reported previously, the AfDB's most recent whistleblower protection policy, issued in 2007, expanded the scope of protection for whistleblowers in order to be consistent with international best practices.

Since the last report, we have sought information on the implementation of this policy from AfDB staff and Management. The Bank notes that, over the last three years (2009-2011), and through July 2012, it has received seven whistleblower retaliation complaints, six of which were received between 2009 and 2011. The one case in 2012 is from an anonymous whistle blower, alleging retaliation. It was investigated and, as no retaliation was found, the case was closed.

For each of the six cases, the complainant alleged that someone at the AfDB was about to take a retaliatory action against her/him, in response to the complainant's whistle blowing about wrongful acts occurring in AfDB-financed activities. Three of the cases were effectively vindicated. In one instance, a pre-emptive action advising the superior against taking the feared retaliatory actions was enforced, and the whistleblower was not retaliated against. In another instance, the retaliatory case was resolved through a court decision in a member country where it was found that the whistleblower, while not facing retaliation, was experiencing related issues with the alleged wrongdoer. In a third instance, the Bank led a mediation process between the whistleblower (a member government employee working on a Bank project while on a leave of absence) and a national authority alleged to have retaliated against the whistleblower. This resulted in financial settlements on behalf of the whistleblower with the Bank and the national authority, as well as amicable separation between the whistleblower and both of these employers. Investigation into one retaliation case received in 2011 is still ongoing. This is because the retaliation case is tied to an investigation of the underlying allegation, which is expected to be

resolved by the end of September 2012. The remaining two cases were reviewed but found not to involve retaliation for whistleblowing activities, and were referred to the Bank's Human Resources Department to handle.

IDB:

In mid-October 2012, the IDB issued a new whistleblower policy that incorporated the recommendations from the consulting firm Global Compliance, a firm the Bank engaged, at the urging of the United States, to conduct a comprehensive review of the Bank's ethics, conduct, and grievance systems and to present recommendations for further policy development. Key changes under this new policy include:

- clarifying that the definition of "employees" covered by whistleblower protection in Bank policy includes employees who were about to report an allegation and employees who were mistakenly believed to have reported an allegation;
- shifting the burden of proof to Management to provide, by clear and convincing evidence, that it would have taken the same adverse action against a whistleblower absent the whistleblowing;
- preventing retaliation in the form of non-renewal of a temporary contract;
- reinforcing provisions for interim relief to a whistleblower when necessary; and
- including a "good faith" standard for reporting and cooperation to invoke whistleblower protection.

In addition, the Board is leading a process to change the IDB's Statute of its Administrative Tribunal, which has jurisdiction over whistleblower cases. Proposals that are being considered include: raising (or eliminating) the cap on damages, allowing successful claimants to receive costs and attorneys' fees, providing interim relief in appropriate cases while claims are pending, and permitting the Tribunal to waive the statute of limitations for whistleblowers. However, there are several key issues that need to be resolved before the revisions can be finalized, including the circumstances under which an employee could be obliged to pay the Bank's legal costs if a judge finds a complaint to be frivolous (a proposal recommended by Global Compliance, consistent with practices of other International Financial Institutions). We understand that the Board is working on a modification to address this concern (i.e., by stating that payment of the Bank's legal costs would only be pursued if a claim was found to be "malicious or abusive"). However, the Staff Association (SA) would prefer that this provision be struck entirely. In addition, the SA is seeking to have the Tribunal—rather than Management—determine whether compensation is an appropriate remedy in lieu of reinstatement. We support the SA's approach.

Specific Cases

The IDB reports that, over the last three years (2009-2011), its Ethics Office received four requests from whistleblowers for protection from retaliation. In three of these matters, the Ethics Committee determined that there had been no retaliation. In each of these instances, the employee appealed to the Administrative Tribunal. One of these appeals was withdrawn by the staff member; one of them is still pending; and in the third matter, the Tribunal, while not finding retaliation *per se*, found that the Bank did not make adequate efforts to obtain a new position for the whistleblower when her term contract expired. The Tribunal awarded compensation to this employee.

In the fourth matter, an IDB employee reported that she suspected retaliation, allegedly committed by the head of a small external group that worked regularly with Bank employees, after she accused one or more of the external group's members of violating IDB policies and the IDB Code of Ethics and Professional Conduct. Because the external group is not part of the Bank or subject to its policies or the IDB Code, the Bank concluded that the external group should not be subject to investigation by the Bank. However, because the employee provided credible indicia of retaliation by the external group, the Ethics Office worked actively with the Human Resources Department to assist the Bank employee in finding another position at the Bank.

In 2012, the Ethics Office received allegations that are in the initial assessment phase. The Office is in the process of obtaining additional information to determine whether these are credible allegations of whistleblower retaliation.

(5) Requiring that each candidate for budget support or development policy loans provide an assessment of reforms needed to budgetary and procurement processes to encourage transparency, including budget publication and public scrutiny, prior to loan approval.

World Bank:

As reported previously, the World Bank requires that prior to seeking Board approval for a development policy loan (DPL), a borrowing country must submit to a review of its public financial management and procurement systems and, if necessary, commit to time-bound actions to address deficiencies and help mitigate risks.

Since the last report, the Bank has concluded a review of DPL performance in borrowing countries, which will be released in November 2012. Although the review is not yet public, we understand that it will conclude that the Bank has been effectively taking into account the fiduciary risks of providing budget support. For example, over a three year period (April 2009-March 2012), countries with low scores (2 or below), as measured by "quality of budgetary and financial management,"⁶ received practically no DPLs and nearly 40 percent of DPLs went to countries with a score of 4 or above.

⁶ This measure is one of the Bank's "country policy and institutional assessment" scores, which rate countries on a range of policies from 1 (low) to 6 (high).

AfDB:

In the second quarter of 2012, the AfDB adopted a new, strengthened operational policy governing its budget support operations, which includes a new provision requiring budget transparency as a condition for budget support. The Bank will continue to require that, before receiving budget support, a country must have a satisfactory assessment against a four-pillar Fiduciary Risk Management Framework (budget, procurement, audit and reporting, and corruption) for a policy based operation (PBO), and against a full range of fiduciary assessments.

In countries with weaker country systems, the AfDB will consider budget support only if the country has committed to an adequate program of reform in its public financial management and there is demonstrated evidence of progress. Loan conditions that require significant improvement in public financial management are used to help to mitigate the fiduciary risks associated with budget support loans in these countries.

IDB:

As reported previously, the IDB adopted formal guidelines in April 2005 for the preparation and implementation of budget support operations (known at the Bank as policy-based loans). These guidelines require assessments of a borrowing country's public financial management systems and identification of steps needed to strengthen the borrowing country's national fiduciary systems.

While these guidelines have not been updated, they are now *de facto* linked to a recently adopted policy requiring the IDB Chief Economist's office to provide independent assessments of a country's macroeconomic sustainability, including assessments of financial management and budget outlook. In the event that the Chief Economist's office concludes that there is a strong likelihood of unsustainable macroeconomic conditions (e.g., poor financial outlook), Bank Management is expected to avoid any increase in net aggregate exposure to that country (i.e., new lending), outside of what is contractually required for previously approved project disbursements.

(6) Making publicly available external and internal performance and financial audits of such institution's projects on the institution's Web site;

Since the last report, the AfDB has joined the World Bank and the IDB in requiring borrowers to disclose audited annual project financial statements. In addition, as noted previously, the World Bank, AfDB, and IDB also post overview assessments of project performance on their respective web sites.

In addition, the IDB is in the final stages of implementing changes needed to fully harmonize its access to information guidelines with those of the World Bank. These changes will allow for disclosure of the financial statements of IDB projects, provided that the authorities of a country in which a project is undertaken do not object to their publication. If there is an objection, the country's authorities are responsible for providing redacted statements that provide financial information at a level acceptable to the IDB. These changes are reflected in amendments that

have been sent to the Bank's Access to Information Committee for approval. Further, in August 2012, the Board of Executive Directors approved the Bank President's appointment of the Access to Information external review panel, which will review appeals to information that has been withheld pursuant to the guidelines.

(7) Adopting policies concerning the World Bank's proposed Program for Results (P4R) to limit P4R to no more than 5 percent of annual World Bank lending as a pilot for a period of not less than two years; require that projects with potentially significant adverse social or environmental impacts and projects that affect indigenous peoples are either excluded from P4R or subject to the World Bank's own policies; require that at the close of the pilot there will be a thorough, independent evaluation, with input from civil society and the private sector, to provide guidance concerning next steps for the pilot; and fully staff the World Bank Group's Integrity Vice Presidency, with agreement from Borrowers on the World Bank's jurisdiction and authority to investigate allegations of fraud and corruption in any of the World Bank's lending programs including P4R;

Since the last report, the World Bank Executive Board, with U.S. support, reviewed and approved the first two P4R projects in June 2012, a third in October 2012, and a fourth in November 2012. None of these projects, which are detailed below, are a Category A project with significant adverse environmental impacts.

The first P4R project provided a \$60 million loan to the Government of Nepal to support bridge maintenance and construction. Specifically, it will help finance major maintenance of over 300 bridges; minor maintenance of 233 bridges; construction of 121 new bridges; and the establishment and operation of a bridge management system to ensure sustainability of maintenance going forward. During project development, the World Bank specifically excluded bridges that were likely to have significant adverse impacts on the environment or indigenous peoples. The program builds on a separate Bank road sector reform program and is expected to have high rates of return.

The second P4R project is a \$300 million loan to the Government of Morocco to support the second phase of the \$2.1 billion National Initiative for Human Development (INDH). INDH is aimed at fostering social cohesion through thousands of community driven development projects: small scale infrastructure, local income generating activities, and social cohesion/inclusion programs (e.g., sports, cultural activities, wider participation of women and youth in local government). Although the Bank is financing a substantial portion of the project, this project will largely be financed by the national and local governments.

The third P4R project provides \$255 million in performance-based assistance to 18 (out of 26) Urban Local Government Authorities (ULGA) in Tanzania to improve urban service delivery. Key objectives are to improve: (i) institutional structures and local governance to conduct urban planning, revenue generation and collection; (ii) fiduciary systems; (iii) service delivery systems; and (iv) accountability and oversight mechanisms. It will also construct or repair urban municipal infrastructure, and enhance the central government's fiscal transfer mechanism to support and deepen decentralization.

The fourth P4R project provides \$200 million in performance-based assistance to expand access to water supply and sanitation services to rural areas in eight Vietnamese provinces. The program falls under the third phase of Vietnam's National Target Program, which has received World Bank and other donor assistance in the past. Key objectives are to: (i) increase rural access to sustained water supply systems; (ii) increase rural access to commune-wide sanitation; and (iii) improve planning and monitoring of rural water supply and sanitation services. The key implementing agencies are the Ministry of Agriculture and Rural Development (MARD) and the National Center for Rural Water Supply and Sanitation (NCERWASS).

These four projects represent markedly different uses of P4R, which we view to be appropriate for a pilot program. The Nepal project is a case of relatively weak existing country systems paired with a narrowly defined program and significant capacity building efforts. The Morocco project is a case of relatively strong existing country capacity coupled with a somewhat diffuse program. The Tanzania project is an example of relatively weak country systems paired with a rather complex project. The Vietnam project is a good example of ambitious yet realistic disbursement-linked indicators that pay for progress on important intermediate outcomes that have well-established empirical links to ultimate health outcomes.

In general, Treasury believes that the success of these P4R projects will hinge on the integrity of the Disbursement Linked Indicator outcomes. Original proponents of results based lending instruments (like P4R) pointed to the importance of having a third party verification mechanism, where possible. In the case of the Morocco project, the World Bank will be able to hire an external consultant to handle verification. In Nepal, verification will be handled by a competitively-selected, private-sector firm contracted by the Government's National Planning Commission, which is independent of the implementing agency for the bridge program. Under the Tanzania project, the Prime Minister's Office for Regional and Local Government will hire – through an international competitive bidding process – an independent agency to conduct annual performance assessments that the World Bank will have access to and can randomly audit, as needed. In Vietnam, the independent State Audit of Vietnam (SAV) agency will contract an engineering firm to verify the program's implementation, and the World Bank will have access to all verification reports.

On the key issue of the Integrity Vice President's (INT's) access to investigations, INT has noted that the P4R Anti-Corruption Guidelines are incorporated in all P4R binding legal agreements. INT has also confirmed that the legal agreements provide it clear authority to investigate instances of fraud and corruption in these projects. Further, affected persons will also have redress under the World Bank's Inspection Panel.

We expect that up to three more P4R projects will be reviewed by the World Bank Executive Board this calendar year. Bank Management continues to assure the Board that P4R lending will not exceed five percent of annual Bank lending.

(8) Concerning the World Bank, strengthening the public availability of information regarding International Finance Corporation (IFC) subprojects when the IFC is funding a financial intermediary, including—(A) requiring that higher-risk subprojects comply with the relevant Performance Standard requirements; and (B) agreeing to periodically disclose on the

IFC Web site a listing of the name, location, and sector of high-risk subprojects supported by IFC investments through private equity funds.

As reported previously, the updated IFC Sustainability Framework requires that higher-risk subprojects comply with the relevant Performance Standard requirements. In addition, the IFC will periodically disclose a listing of name, location and sectors of high-risk sub-projects that have been supported by IFC through private equity funds, subject to regulatory constraints and market sensitivities.

Since the last report, we have clarified that the timing of IFC disclosure of sub-project listings will depend on: 1) the date on which a commitment by the IFC is made to the private equity fund operations subject to the new policy (following Board approval, the mutual agreement between the IFC and the private equity fund to move ahead with the project); 2) the timing of reporting by the private equity funds to the IFC; and 3) when each private equity fund actually invests in a high-risk subproject subject to this disclosure requirement.

The IFC typically gets written reporting from its private equity fund clients, including private equity fund clients, roughly one year after commitment through an “Annual Monitoring Report.” Since the updated Sustainability Framework went into effect, the IFC Board has approved two private equity funds: *CoreCo CA* in Central America, and *Infuse Capital* in India. However, since investments in these funds have not yet been committed, the IFC is not yet required to provide the first sub-project disclosure listing. Once reporting begins, the IFC anticipates that each private equity fund’s listing will be updated annually (in the annual update of project information).

**Annex 1
Evaluation of the Overview Framework of the Cancún Declaration**

<i>Specific conditions to be met</i>	<i>Actions and timeline for implementation</i>	<i>Why it matters</i>
<p>1</p> <p>Clarify key institutional priorities.</p>	<p>Governors affirm the following institutional priorities: (a) reducing poverty and inequality; (b) ensuring sustainable development; (c) addressing sustainable energy and climate change (d) addressing the special needs of the poorest countries, (e) promoting regional integration, and (f) fostering development through the private sector.</p>	<p>Implementation of the Institutional Priorities to be monitored through the Results Framework (RF) and reported in Development Effectiveness Overview (DEO) annually.</p>
<p>2</p> <p>Adopt sector strategies and notional lending targets to address urgent regional needs.</p>	<p>Governors instruct Management to submit for Board consideration strategies (by target date) to promote: (a) regional integration infrastructure and technical assistance, (b) better education performance, (c) broader private sector access to finance, particularly for Small and Medium Enterprises (SME), (c) renewable energy, and (d) climate change adaptation and mitigation. Governors also direct Management to integrate lending targets into performance evaluations and budgeting policies by target date.</p>	<p>Completed. Reviewed in DEO annually.</p>
		<p>These strategies provide clarity and direction on how the IDB will implement institutional priorities and create accountability of the Bank to its stakeholders.</p>

			<p>education; sustainable energy (including renewable energy); and access to finance, particularly for SMEs.</p>	
		<p style="text-align: center;">Completed.</p> <p>All strategies have been approved by the Board and all sector guidelines have been submitted to the Policy and Evaluation Committee (PEC).</p>		
<p>3</p>	<p>Adopt a comprehensive Income Management Model.</p>	<p>Governors adopt a model that allocates income to cover the following constraints:</p> <ul style="list-style-type: none"> • Minimum annual transfers of \$200 million to the grant facility for Haiti; • A capital accumulation rule that preserves the financial soundness of the bank; • Loan charges set as to cover administrative expenses consistent with the Bank's multiyear budget; • Parameters of the Capital Adequacy Policy; • Fund for Special Operations (FSO) administrative expenses fixed at 3 percent, non-reimbursable Technical Cooperation (TC) fully funded by Ordinary Capital; and • Pricing adjusted to meet these constraints. 	<p>Annually, starting FY 2011, and based on the Income Management Model (IMM), Management will submit for consideration and approval by the Board of Executive Directors a document proposing the annual allocations for the following year, based on medium-term financial projections.</p>	<p>This mechanism supports sound and efficient resource allocation and budget discipline and ensures that the region's poorest country has a sustainable source of grant funding.</p>

		<p>Completed.</p> <p>IMM methodology incorporated in 2011 and 2012 as part of Long-Term Financial Plan (LTFP) proposing annual resource allocations. Two annual transfers of \$200 million to the grant facility for Haiti have been approved by the Board of Governors.</p>		
4	<p>Disclose project-level reporting with stronger metrics.</p>	<p>Governors direct Management to provide public disclosure in the DEO of ex-ante project-level evaluability analysis, compliance with institutional priorities, and Economic Rate of Return (ERR) calculations for projects approved that year, and ex-post impact evaluations for any projects evaluated in that year, including for Non-Sovereign Guaranteed (NSG) projects.</p>	<p>Annually, by the end of Q1, public disclosure of the DEO.</p>	<p>Creates accountability, transparency and efficiency at the project level.</p>
5	<p>Ensure quality of loan portfolio through use of new development effectiveness matrix.</p>	<p>Governors endorse a further strengthening of the Operations Policy Committee by the President of the Bank and Senior Management to ensure that projects meet minimum development effectiveness thresholds as assessed in consultation with the Chief Economist office.</p>	<p>By end of Q3 of 2010: (a) Review of methodologies for evaluability; (b) amend programming process and operational procedures to ensure that all projects meet minimum evaluability thresholds. Annually the Office of Evaluation and Oversight (OVE) provides yearly reports on project evaluability and validate achieved results for completed projects annually.</p>	<p>Reinforces project effectiveness and focus on results by establishing a minimum threshold that must be met.</p>
		<p>Completed.</p> <p>The DEO is submitted to the Board annually in Q1.</p>		<p>Completed.</p> <p>New Development Effectiveness Matrix (DEM) was approved in Q2 2011 and it has been implemented.</p>

6	Strengthening Development Effectiveness	Governors direct Management to produce the DEO annually, incorporate Office of Evaluation and Oversight (OVE) recommendations previously endorsed by the Board of Executive Directors and consider future OVE recommendations to improve loan quality.	OVE recommendations incorporated as part of the annual DEO starting in 2013.	Provides clear direction to management to adopt and implement recommendations from the Bank's independent evaluation office to strengthen development effectiveness.
7	Staffing and resourcing the new Inspection Mechanism (ICIM).	Governors direct Management to rapidly staff and implement the new Inspection Mechanism with phased-in coverage of all Bank policies by the time of the overview process.	Completed staffing and institutional arrangements necessary to start processing requests before the Independent Consultation and Investigation Mechanism (ICIM) by Q2 2010.	Gives groups potentially affected by Bank projects an avenue to ensure that projects are being implemented according to Bank policies and are not damaging to local populations.
8	Adopt a new disclosure policy consistent with best practice.	Governors instruct Management to implement a new disclosure policy that meets the highest standards applied by other Multilateral Financial institutions including the following elements: <ul style="list-style-type: none"> • The replacement of a "positive list" of disclosed policies with a limited "negative list" • Presumption of disclosure • Release of Board/Committee minutes • Independent appeals mechanism 	Completed. Implementation Plan to be submitted to the Board of Executive Directors by July 31, 2010. Effective date of the policy January 1, 2011.	Improves transparency of bank operations and accessibility of information.
<p style="text-align: center;">Completed.</p> <p>Reviewed in annual DEO. The 2011 DEO highlighted the IDB's pursuit of innovative projects that include a strong emphasis on incentives, outcomes and sustainability.</p> <p style="text-align: center;">Completed.</p> <p>Policy establishing the ICIM approved by the Board in Q1 2010 and mechanism entered into force in Q3 2010.</p>				

		<ul style="list-style-type: none"> • Voluntary disclosure of ED's statements • Disclosure of project-level results 		
<p>Completed. New disclosure policy entered into force in Q1 2011.</p>				
9	<p>Adopt process to update environmental and social safeguards.</p>	<p>Governors instruct the Board of Executive Directors to adopt a revised set of environmental and social safeguards fully consistent with the recommendations of the Independent Advisory Group (IAG) on sustainability in its final report, and a revised set of social safeguards in line with international best practices.</p>	<p>Action plan with a revised set of environmental and social safeguards fully consistent with the recommendations of the IAG was approved by the Board of Executive Directors by Q1 2011</p>	<p>Helps mitigate potentially negative impacts of Bank projects.</p>
<p>Completed.</p> <p>The IAG report was submitted to the Board in Q1 2011 and noted that the IDB's social and environmental safeguards were adequate and no policy revisions were needed at this time. Management is expected to present to the Board of Directors' PEC before the end of 2012 a comprehensive response to the additional recommendations made by the IAG report focused on strengthening implementation and mainstreaming sustainability.</p>				
10	<p>Expand private sector operations.</p>	<p>Governors agree that private sector operations shall be capped at 20% of the Bank's Equity through 2012, after which private sector operations will be subject to the Bank's new Non-Sovereign Guarantee (NSG) strategy and capital adequacy policy.</p>	<p>NSG Strategy presented to the Board of Executive Directors by end of Q3 2010. Private sector strategy presented to the Board of Executive Directors by end of Q4 2010. Annual reporting of NSG operations in the DEO.</p>	<p>Allows for additional funding for private sector development, which is key to sustained growth.</p>

				The Board of Executive Directors will establish new limits after 2012.	
		<p>Completed.</p> <p>Private-Sector Development Strategy (PSDS) and NSG Business Plan were approved by the Board in Q4 2011. Annual NSG operations reported in DEO.</p>			
11	Adopt results-based budgeting (RBB).	Governors direct Management to develop and adopt a corporate strategy for results-based budgeting for the FY2011 budget.	Initial application of the RBB methodology in the 2011 Program and Budget Proposal, implementation beginning in FY 2011.	Ensures that the IDB is allocating its operational resources in line with its development mandate and institutional priorities.	
		<p>Completed.</p> <p>RBB approved and incorporated in annual budget process.</p>			
12	Implementation of the new capital adequacy policy.	Governors direct Management to implement the new capital adequacy policy as approved by Board of Executive Directors.	Implementation of the policy by Q1 of 2010.	Ensures that the IDB is financially sustainable.	
		<p>Completed.</p> <p>First implemented in Q1 of 2010. Capital Utilization Ratio (CUR) reported annually (Q1) in accordance with capital adequacy policy.</p>			
13	Ensure adequate safeguards against lending into unsustainable macroeconomic situations.	The Chief Economist and Research Department of the Bank will produce rigorous assessments of macroeconomic sustainability based on objective criteria when called for by country conditions; loans for consideration by the Board of Executive	Macroeconomic sustainability analysis (MSA) annually for each country as part of the programming exercise, starting in 2011.	Discourages scarce development resources from being deployed in countries that are following unsustainable economic policies.	

		Directors shall meet the criteria.		
		Completed. The MSA methodology and process approved by the Board of in Q4 2011.		