Report

Governance of multilateral development banks

Options for reform

Annalisa Prizzon, Mandeep Bains, Suma Chakrabarti, Jessica Pudussery

September 2022

ODI

How to cite: Prizzon, A., Bains, M., Chakrabarti, S., et al. (2022) *Governance of multilateral development banks: options for reform*. ODI Report. London: ODI (www.odi.org/en/publications/governance-of-multilateral-development-banks-options-for-reform)

Acknowledgements

We would like to thank Nancy Birdsall, Chris Humphrey and Frannie Léautier for their constructive comments on an earlier version of this report, and Bianca Getzel for research support. Thanks to Mark Miller for supervising this work, Matthew Foley for editing and Gruffudd Owen for production coordination. This report was made possible thanks to the financial support of the Bill and Melinda Gates Foundation. Analyses and views in this report are the sole responsibility of the authors.

About the authors

Annalisa Prizzon is a Senior Research Fellow at ODI.

Mandeep Bains is an independent development expert and ODI Research Associate.

Suma Chakrabarti is Chair of the ODI Board of Trustees and former President of the EBRD.

Jessica Pudussery is an independent consultant.

Contents

Display items

Boxes

Tables

Figures

Acronyms/Glossary

AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
AsDB	Asian Development Bank
BoD	Board of Directors
BoG	Board of Governors
CABEI	Central American Bank for Economic Integration
CAF	Development Bank of Latin America
CDB	Caribbean Development Bank
CGD	Center for Global Development
EBRD	European Bank for Reconstruction and Development
ED	Executive Director
EIB	European Investment Bank
Gavi	Global Alliance for Vaccines and Immunisation
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDEV	Independent Development Evaluation
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IsDB	Islamic Development Bank
MDB	Multilateral Development Bank
NDB	New Development Bank
NPL	Non-performing loan
OECD	Organisation for Economic Co-operation and Development
TDB	Trade and Development Bank

Executive summary

This paper contributes to a long-standing debate on reform of the governance of multilateral development banks (MDBs). In line with several expert reports that have gone before, in our view, the current governance structures in many MDBs prevent them from maximising their development value.

Improving the effectiveness of MDBs is more urgent than ever, as emerging and developing countries face multiple challenges from the spike in commodity prices, rising inflation, increased indebtedness, the Covid-19 pandemic and the war in Ukraine, in addition to existing development challenges. Applying principles of good corporate governance can make MDBs more effective and relevant institutions. Furthermore, the relevance of MDBs for client countries versus other financiers, including private investors and national development banks, has fallen over time, making the call to modernise these institutions even stronger.

This paper focuses on reforms to the Boards of Directors (BoDs) of MDBs. In most cases, MDB governance structures have three levels: (i) the Board of Governors (BoG), (ii) the BoD, which both oversee (iii) Management, headed by a President.

A resident BoD representing government shareholders is the prevailing model across major MDBs, but it does not seem to meet many of the core requirements for effective corporate governance. This would require that the BoD has a strategic focus; fulfills a supervision/oversight role; and operates according to a clear division of responsibilities between the Board and management. Board members should have the right skillset and a breadth of perspectives.

MDB BoDs do not appear to have a primary focus on strategy; indeed, a resident BoD tends to spend only a small share of its time on oversight/supervision and strategy setting, with much of its time spilling into involvement in day-to-day management. In most legacy MDBs, a clear framework for the division of responsibility does not exist, and where formal delegation exists it is usually only for project decisions. While MDB BoDs are involved in defining strategic direction, setting performance indicators and monitoring the performance of management, they also act as a political counterweight to the technical decisions and proposals of management, notably by allowing shareholders to bring in their national interests. Furthermore, the experience and expertise of prospective Directors are rarely assessed against job descriptions or in view of the skills required to complement those of existing members.

The report outlines three options for reforming the governance model in MDBs, with a view to maximising the development potential of each MDB and aligning the government model with the principles for effective corporate governance:

- Professionalise the recruitment of Board Directors, while retaining the main features of the current Board structure (i.e. resident and with Directors representing government shareholders).
- Transform current Boards (composed of representatives of government shareholders) from resident to non-resident.
- Replace the current Boards with non-resident independent Directors that are not representatives of government shareholders. An intermediate step would be to include independent/non-governmental Directors on the Board and/or on Board committees.

1 Introduction

1.1 The prevailing MDB governance model

While MDBs are financial institutions that operate largely like banks, their mandates require them to support the broad economic development of their member countries, and their shareholders are governments rather than companies or individuals. In most cases, MDB governance structures have three levels: the BoG, the BoD and Management, the latter headed by a President.

The BoG includes all shareholders, most often represented by Ministers. It usually meets at least once a year to set the broad strategic direction for the MDB. [1] Sandwiched between the BoG and management is the BoD, which acts as an additional layer of governance or oversight. [2] The BoD is generally a smaller grouping than the BoG, as several shareholders can be represented by a single Director. In almost all cases, the President (a member of management) is the Chair of the BoD, even if the latter does not generally have a vote (except for a casting vote in the event of a tie).[3]

BoDs have multiple roles. They define strategic direction, set performance indicators and monitor the performance of management. They also act as a political counterweight to the technical decisions and proposals of management, notably by allowing shareholders to bring in their national interests. As such, the BoD also operates as a democratic forum or mechanism for representation (Martinez-Diaz, 2008).[4]

Members of the BoD – called Executive Directors (EDs) or Directors – are usually expected to have a background in economics and finance. They are appointed or elected by government shareholders, largely but not always from their civil service. However, their experience and expertise are rarely assessed against job descriptions for their role, or in view of the skills required to complement those of existing members. This is in contrast to members of BoDs in companies, who are usually appointed through a competitive process and against required competencies and expertise.

The BoD can be resident – with Directors working full-time – or non-resident, with a part-time commitment from Directors. A resident BoD representing government shareholders is the prevailing model across major MDBs. The residency of Board members and their staff means that they should get to know the institution well and have the time and resources for intensive engagement, in principle allowing for increased Board responsiveness and rapid decision-making.

1.2 The debate about MDB governance structures

The debate about governance structures dates from the creation of the first MDB, the

1 Every six months in the case of the World Bank Group.
2 The BoGs at MDBs have a similar role to the BoD in commercial companies.
3 Throughout the paper, we will refer to BoD for the forum and to EDs for its members.
4 Although such constituencies can sometimes be dominated by the largest shareholder.

International Bank for Reconstruction and Development (IBRD) (more commonly known as the World Bank), in 1944.[5] The IBRD became the archetype for the governance structures of the MDBs that followed. Disputes over the division of labour between the BoD and the President triggered the resignation of the first President of the World Bank Group, Eugene Meyer, only a year after his appointment. Such disputes have bedevilled the relationship between MDB Boards and management ever since.

Over the last decade, there has been a move away from reliance on the traditional governance model of MDBs described above, with the creation of the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) in 2014. Their founding members decided to create non-resident BoDs, thereby reviving the debate on how MDBs should be governed. However, there was little change in governance structures in existing institutions. A resident BoD representing government shareholders remains the prevailing model across major MDBs (see Box 1).

The contention in this paper is that the current governance structures in legacy MDBs prevent them from maximising their development value. We consider this unsurprising given that MDB governance models do not reflect several of the principles of good corporate governance, which *a priori* seem to apply to MDBs. Good governance can contribute towards long-term sustainable success (UK Corporate Governance Code, 2018). Further, we contend that even some founding shareholders of legacy MDBs have acknowledged some shortcomings of the MDB governance model, by bypassing these institutions in recent years when they have wanted to respond rapidly to pressing specific development challenges. The relevance of MDBs for client countries versus other financiers – e.g. private investors, national development banks – has fallen over time, making the call to modernise these institutions even stronger.

The spike in commodity prices, rising inflation, increased indebtedness, the Covid-19 pandemic and the war in Ukraine, in addition to existing development challenges, not least the climate crisis, have generated a renewed urgency to revisit the effectiveness and efficiency of tools to promote social and economic development. The pandemic also resulted in changes in the governance practices of MDBs, such as remote meetings which, while incremental, would have been practically impossible to agree upon in the past; more fundamental changes could build on this opportunity.

This report is structured in four main sections:

- Section 2 provides a short history of how the prevailing model of MDB BoDs came about.
- Section 3 outlines the principles for effective corporate governance that can provide lessons for the governance of MDBs and their BoDs and maximise their effectiveness.
- Section 4 takes a more structured look at the evidence and existing literature on the strengths and weaknesses of the prevailing model.

5 By ‘governance’ of MDBs, we will borrow the definition of the Zedillo Commission on the modernisation of the World Bank, namely ‘the set of formal and informal structures, conventions, and rules that determine how an organisation is steered and how its decision-making processes work’ (High-level Commission on Modernization of World Bank Group Governance, 2009).

- Section 5 outlines three options for reform to the current dominant model of MDB governance, analysing their potential benefits and costs, how well they reflect the principles for effective corporate governance and the feasibility of their implementation in the current context.

This report is primarily informed by data collected from MDB reports and institutional documentation, by a review of the grey literature on reforms of the governance structures of MDBs, and by the experience of two of the co-authors who worked in MDBs, one of whom served as President of the European Bank for Reconstruction and Development (EBRD).

Box 1 Three main models of Board of Directors in MDBs

There are three main models of BoDs in MDBs: (i) resident BoDs representing government shareholders; (ii) non-resident BoDs representing government shareholders or members; and (iii) non-resident BoDs representing both private and government shareholders. Table A1 in the Appendix provides some data that we reference in this report.

- *BoDs representing government shareholders that are resident*, as in the World Bank, the African Development Bank (AfDB), the Asian Development Bank (AsDB), the Inter-American Development Bank (IADB) and the EBRD – the institutions often labelled 'legacy' MDBs. This group of MDBs with a resident BoD representative of government shareholders also includes sub-regional development banks such as the Caribbean Development Bank (CDB) and CABEI (Central American Bank for Economic Integration). The Boards are composed of full-time EDs (or 'Directors' in the case of the EBRD) that are part of the institution, with an office inside the MDB, and with advisory and support staff. EDs have a dual role as officials of the institution and as representatives of member countries. EDs are either directly appointed by shareholders (in single constituencies) or are elected by more than one shareholder (in multi-country constituencies). The BoD is chaired by the President of the Bank.
- *BoDs representing government shareholders or members that are non-resident*, such as in the European Investment Bank (EIB), the Islamic Development Bank (IsDB), AIIB, NDB and the International Fund for Agricultural Development (IFAD). In non-resident Boards, Directors travel from their home institutions to attend Board meetings at regular intervals. Directors retain their jobs in their home institutions and their work with the BoD is part-time. They are often more senior than in a resident Board. The BoD is chaired by the President of the Bank.
- *BoDs representing both private and government shareholders – even though with different weights – and non-resident*, e.g. the Development Bank of Latin America (CAF), the East African Development Bank (EADB) and the Trade and Development Bank (TDB). These institutions share most of their features with the second category (non-resident BoDs with government shareholders). Their BoDs are however composed of both private and government shareholders – this is also a common feature of vertical funds in health, education and climate change, which often involve private actors and financiers. The President does not perform the role of chair of the Board in these institutions.

2 The development of the MDB governance model: a short history

Discussions of the governance of the first MDB, the IBRD, were tied closely to the creation of the International Monetary Fund (IMF). The organisational structure of the IBRD was largely derived from the IMF agreement, even though the two institutions had different objectives. Bitterman (1971) argued that this probably took place without adequate recognition of the functional differences between the two institutions 'since the Bank had no regulatory functions and loans would have not required the speedy action involved in exchange matters'. The basic structure of IMF governance – a BoG including all members and a smaller Executive Board – was decided in June 1944 by the Atlantic City Committee on Fund Organization. However, the roles and residency of the members of the BoD were not decided until the inaugural meeting of the BoG in 1946 (Lichtenstein, 2018).

For the British delegation, John Maynard Keynes' vision for the BoD was that it should focus on strategy, rather than day-to-day operations, and ensure a link between the IMF Managing Director and IBRD President respectively and national treasuries/finance ministries and central banks. For this reason, Keynes argued for part-time and non-resident Directors for the IBRD and IMF Boards, with representation ensured by high-profile 'deputy governors of central banks' or 'very responsible people in the heart of their institutions' (Lichtenstein, 2018; Von Mueller and Baumann, 2016; Martinez-Diaz, 2008; Boughton, 2001). Furthermore, 'Keynes argued that 48 salaries (n.b. at IMF and World Bank) would impose an excessive burden and that that number of men could be employed more usefully in their own countries, and since both EDs and alternates were not needed all the time, they could divide work and salaries' (Lichtenstein, 2018).

Keynes' proposals for the role and residency of the BoD for the Bretton Woods Institutions met with resistance from his American counterparts led by Harry Dexter White, who argued for a resident BoD. The US, the largest shareholder in the IBRD and IMF, reasoned that Directors and alternates should be available at all times to allow quick decisions, and should work full- time so as to be knowledgeable and current with the operations of their institutions (Lichtenstein,2018). A resident Board would also act as a stronger political counterweight to management through the representatives of creditor shareholders (Martinez-Diaz, 2008).

The governance structures of the other MDBs largely mimic that of the World Bank. In the case of the AfDB, while the bank was established in 1964, the BoD did not become resident until 1970 (Gardiner and Pickett, 1984). During negotiations on the AsDB's governance structures, at least one proposal for a part-time Board was made to cut costs (Wilson, 1987). In the case of the EBRD, a majority of European Community countries originally favoured a non-resident Board to economise on cost, as in the EIB (Menkveld, 1991), but, as for the Bretton Woods Institutions, the US argued in favour of a resident Board at the EBRD to have a powerful voice in day-to-day functions (Weber, 1994). In the end, shareholders agreed on a Board of 23 full-time resident Directors at the EBRD, more than the World Bank at that time and twice as many as the AsDB (Strand, 2003).

More recently, there has been some movement away from reliance upon the traditional MDB governance structures. In the early 2000s, vertical health funds – like the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) and the Global Alliance for Vaccines and Immunisation (Gavi) – were created as standalone institutions to circumvent the complexity of existing MDB governance structures; a separate structure was deemed to be more flexible and responsive.[6] More recently, in 2014, the decision of the founding members of the AIIB[7] and of the NDB – neither of which has the US as a shareholder – to create non-resident BoDs revived the debate on how MDBs could be governed more effectively (von Müller and Baumann, 2019; Humphrey, 2015). The choice of a non-resident BoD in these two institutions was meant to address some of the challenges of a resident BoD, increasing the speed of decision-making and putting in place lighter governance structures.

The establishment of a non-resident Board for the AIIB should not be viewed as a major departure in the thinking about MDB governance, which has always been a hotly contested subject. Even though the debate on the residency of the BoD was given renewed prominence when the AIIB was set up, it is worth noting that many older institutions do not have a resident Board – *de jure* or *de facto*, e.g. the EIB (established in 1958), the IsDB (in 1975) and IFAD (in 1977).

In contrast, little to no progress has been made in reforming the governance models of legacy institutions. There have been several attempts to promote reforms of the governance structures of MDBs, notably through high-level commissions that have offered options for reform, including the 1996 World Bank Task Force on Multilateral Development Banks, the 2006 Center for Global Development (CGD) report on the reform of the AfDB, the 2009 High-Level Commission on the Modernization of World Bank Group Governance (the Zedillo Report), the 2016 CGD High-Level Panel on the Future of Multilateral Development Banking and the 2018 report of the Eminent Persons Group on Global Financial Governance (the Tharman Report). More recently, the independent evaluation offices of the AfDB and the IADB have either completed or launched assessments of the governance structures of their respective institutions (IDEV, 2018; OVE, 2021). While the design of newer institutions – namely the AIIB and the NDB – has partly incorporated the recommendations from these reports, the legacy institutions (for which many of the reports were produced) have not been reformed. This fact is perhaps not surprising given that the proposed options for the reform of governance structures touch upon questions relating to the core functions and ultimate purpose of these institutions – views about which differ across shareholders.

6 On the governance of the GFATM, see IEG (2011).

7 The proposal for a non-resident Board at the AIIB was raised early in the discussions on the Bank in 2011 by China's Minister of Finance Lou Jiwei (Chin, 2016). Lou suggested that 'the new bank should be informed by the good practices of the existing multilateral lenders in the areas of environmental policy, governance structure, and loan assessment; however, the new bank should also strive to go a step further, by improving on these practices, cutting costs, and improving on efficiency' (Chin, 2016).

3 Principles of effective corporate governance: lessons for MDBs

Corporate governance focuses on the relationships between a company's management, its Board, its shareholders and other stakeholders. Even if there is no single recommended model, there are broadly accepted principles for good corporate governance covering the role of the Board, the skillset required in the Board and the division of labour between the Board and senior management (e.g. G20/OECD Principles of Corporate Governance, UK Corporate Governance Code) that contribute towards 'long-term sustainable success' (UK Corporate Governance Code).

According to the principles of effective corporate governance (G20/OECD Principles of Corporate Governance), a BoD should concentrate on setting strategy for the organisation and oversight/supervision of management, with a clear division of responsibility between the Board and management. Board composition should reflect the right skillset and breadth of experience. More specifically:

- **The BoD is expected to play the role of 'strategic thinker'**. A strategic-thinking Board should keep some distance from the day-to-day operations of the organisation. If it is submerged in detail, the Board will lose sight of strategic priorities and direction. For this reason, corporate Boards tend to meet only a few times a year. The typical Board of a major business corporation will meet six to eight times per year (Spencer Stuart, 2006a: 21).
- **The BoD is expected to fulfil a supervision/oversight role with operational tasks delegated to management**. The tasks to be fulfilled by the Board would include reviewing and guiding corporate strategy, major plans of action, risk management policies and procedures, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and disinvestments.
- **A clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for running the company's business**. The roles of chair and chief executive should not be exercised by the same individual. The division of responsibilities between the chair and chief executive should be established, set out in writing and agreed by the Board (UK Corporate Governance Code).
- **Directors will be more likely to make good decisions and maximise opportunities for the company's success if the right skillsets and a breadth of perspectives are present in the Boardroom**. Non-executive Directors should possess a range of critical skills of value to the Board and relevant to the challenges and opportunities facing the company (UK Corporate Governance Code). The BoD as a whole should have a key role in defining the general or individual profile of Board members that the company may need at any given time, considering the appropriate knowledge, competencies and expertise to complement the existing skills of the Board (G20/OECD Principles of Corporate Governance). There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. The search for Board

candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment (UK Corporate Governance Code).

4 Resident Board of Directors representative of government shareholders: strengths and challenges

This section summarises the strengths and weaknesses of the prevailing governance model of MDBs – a full-time BoD representative of government shareholders.

4.1 Strengths

Knowledge of the institution and its operations and enhanced control of the institution are cited as the two main advantages of the resident BoD representative of government shareholders.

Knowledge of the institution. The *residency* of Board members and their staff means that they get to know the institution well and have the time and resources for intensive engagement, in principle allowing for increased Board responsiveness, in turn supporting rapid decision-making and reforms.

The merger between the concessional and non-concessional windows at the AsDB is an example: the presence and close collaboration of Board members with management are considered to have been critical to making this unprecedented financial reform in an MDB possible (Devex, 2019).

Mandates of EDs are usually for two or three years and renewable without limit except for the AfDB (which has a two-term limit). For MDBs where this data is available, in reality the average number of years served on the BoD is short. EDs tend to stay in their job for an average of 2.4 years at the World Bank (the term is two years) and three years at the AsDB (also a two-year term), but an average of fewer than two years at the IADB (where the term is three years) (IDEV, 2018).

Control over operations of the MDB. Shareholder representatives that are located physically in the MDB can more directly control the day-to-day operations of MDBs than non-resident Directors (Martinez-Diaz, 2008). Most of the institutions where EDs are resident are either creditor-dominant (i.e. where creditors have the voting majority) or mixed (i.e. with balanced voting power between creditors and borrowers) (see Birdsall, 2018 for a definition). In these institutions, most of the capital comes from creditor-only shareholders that want to ensure accountability in the use of capital and resources to their taxpayers. Voting shares of borrowing countries in MDBs with resident Boards are usually below 50%. [8] Most MDBs without a resident Board are cooperatives, where each shareholder can borrow. For the latter, the voting

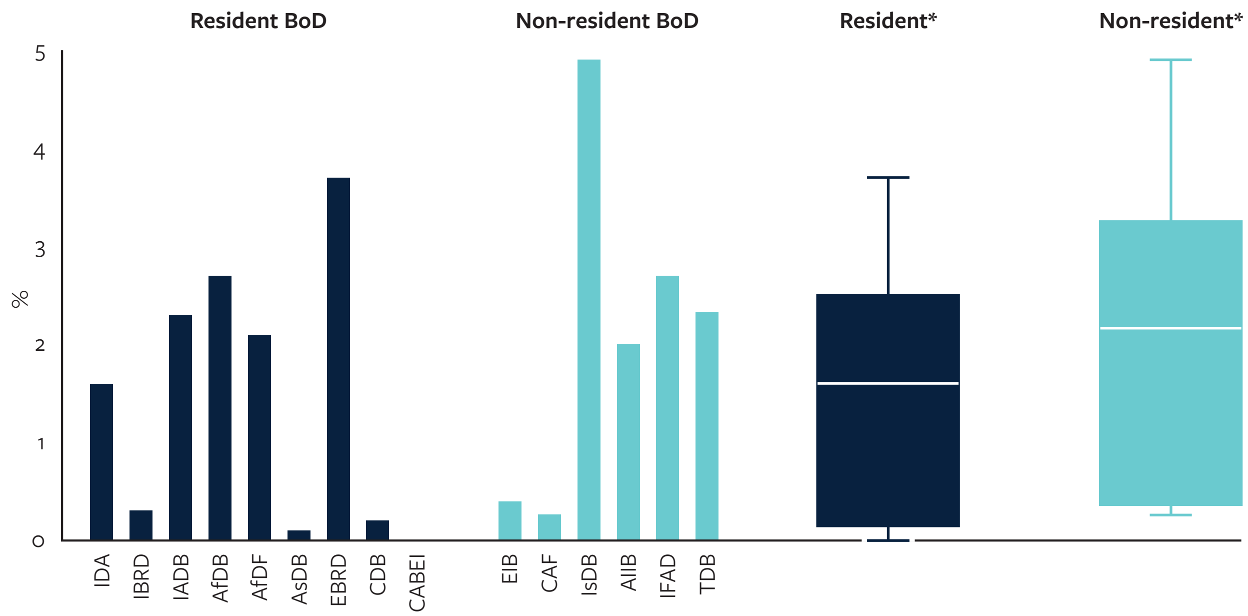
8 Shares are 14% for the EBRD, 31% (IBRD), 39% (AsDB), 50.02% (IADB) and above 50% only for the AfDB at 59.2% (see IDEV, 2018: Table A1; Prizzon and Engen, 2018).

share of borrowing countries is well above 50%,[9] with non-borrowing shareholders representing the minority.

At first glance, a non-resident Board could be perceived as less able to effectively oversee the operations of an MDB. However, there is no correlation between the residency of the Board and the repayment of existing loans. The average share of non-performing loans (NPLs) tends to be only slightly higher in MDBs with non-resident Boards, 2.1% against 1.51% in MDBs with resident Boards (Figure 1). Excluding the IsDB (where the percentage of NPLs is 4.9%), there is no difference between the average share of NPLs in the two groups (Figure 1).

In 2017, one rating agency, in assigning its AAA rating to the AIIB, commented: 'We do not see [the non-residency of the Board] as undermining its oversight or the decision-making in any meaningful way' (Lichtenstein, 2018). Most institutions are rated at Aaa stable by Moody's. The exceptions are CAF (Aaa3 stable), CDB (Aa1 stable), CABEI (Aa3 stable) and TDB (Baa3 negative). These institutions have both resident Boards (CDB and CABEI) and non-resident Boards (CAF and TDB). The lower credit ratings are mainly attributable to the composition of their shareholding structures rather than the residency of their Board.

Figure 1 Share of non-performing loans (% of total)



* The bottom and top of each box indicate the 25th and 75th percentiles respectively and the horizontal line indicates the 50th percentile or median. Whiskers indicate the upper and lower adjacent values.
Sources: Moody's (2019) and Fitch Rating, based on the latest figures available (2020, 2019 or 2018)

9 EIB lending outside the EU is excluded from this analysis, as no borrower outside the EU sits on the EIB Board.

4.2 Challenges

Challenges to the efficiency and effectiveness of MDBs by resident Boards representative of government shareholders can be summarised in five main points: decision-making focused on operations rather than strategy and oversight; conflicts between national and institutional interest; no job descriptions for EDs; lack of clarity on responsibility for decision-making and accountability; and the direct and indirect/opportunity costs of full-time resident Boards.

Decision-making focused on operations rather than strategy. EDs in resident Boards tend to try to exercise control or scrutiny over detailed operational decisions (Taskforce on MDBs, 1996: iv), rather than focusing on setting strategic direction in line with good corporate governance practice. In most organisational structures, Boards should not be 'executive' but rather focus on setting strategic direction and performance indicators, and overseeing them. Yet in most MDBs, the formal title of Board Directors is ED – in and of itself, this term represents a tension in the governance of MDBs. In practice, a resident BoD tends only to spend a small share of its time on oversight/supervision and strategy-setting (High-Level Commission on the Modernization of World Bank Group Governance, 2009), and a significant amount of time and effort spills over into day-to-day management (IDEV, 2018). In November 2008, the US Treasury Secretary Henry Paulson suggested that 'the IMF, the World Bank, as well as the regional development banks, should consider how to reform their executive Boards to make them more accountable, streamlined, and effective. We should also consider whether these institutions could benefit from non-resident Boards. This proposal could free up resources and enable management to focus on issues of more strategic importance'.

As Birdsall (2018) points out, the power of sovereign shareholders is primarily negative: they can stop or slow initiatives, including for new capital and new contributions, and (in rare cases) refuse to approve loans. In our view, this tendency is also related to the fact that shareholders are not devoting sufficient attention to high-level strategy.

Potential conflict between national and institutional interests. The fact that almost all EDs (or Directors) are representative of government shareholders changes the nature of the oversight that they provide, adding a political dimension that allows shareholders to bring in their national interests (Martinez-Diaz, 2008). As Martinez-Diaz (2008) points out, in international organisations executive Boards also serve as a 'political counterweight' to the technical decisions of management. This includes assessing whether these decisions are consistent with the national interest of the country, but this might not necessarily be in line with the priorities and benefits of the institution. Being appointed as a representative of a government – or group of governments – closely linked with their administrations, rather than being independent, raises the likelihood of this potential conflict of interest.

No job descriptions for EDs. Members of BoDs are usually expected to have a background in economics and finance. However, their experience and expertise are rarely assessed against job descriptions for their role, or in view of the skills required to complement those of existing members. This is in contrast to members of BoDs in companies, who are usually appointed through a competitive process and against specific competencies and required expertise.

Most MDBs (the exception is CAF) do not usually have formal job descriptions for EDs. The process for appointing EDs is not usually a competitive recruitment based on the suitability of the candidate for the requirements of the job. While this is true of most MDB EDs, this issue is most relevant for resident Boards, where EDs are devoted full-time to the affairs of the Bank.

The charters of legacy MDBs do not specify the qualifications of the members of the BoDs, but include a general description of the profile of Directors, such as 'persons of high competence in economic and financial matters'. While such topics are relevant, this should be noted that a background in finance, banking or economics does not guarantee that EDs have expertise in development strategy and policy, project and programme design and implementation in specific sectors, which are the main activities of MDBs. Such charters contain no reference to skills in project preparation and structuring. CAF is the only MDB with formal job descriptions for EDs. The World Bank and EIB have informal job descriptions, meaning they serve as a point of reference. To our knowledge, the AIIB is currently preparing draft job descriptions for its EDs.

The specific backgrounds and experiences of EDs tend to be diverse – from Ministries of Finance, Planning and Foreign Affairs, central banks and development agencies (IDEV, 2018). Table 1 summarises the background of EDs across MDBs and for some bilateral development banks. [10] In particular, we note that:

- **the average proportion of career civil servants appointed or elected as EDs is similar between resident and non-resident Boards (63% and 61% respectively)**. CAF and TDB – the two banks with private sector participation – unsurprisingly have the lowest share; and
- **the average share of EDs with a background in banking, finance or economics is significantly higher in MDBs without a resident Board (94% on average) than in MDBs with a resident Board (73%)**. The proportion is 67% and 55% for the AsDB and AfDB BoDs respectively. In MDBs without a resident Board, the lowest proportion is CAF, at 84% of Board members, but it is 100% for AIIB and NDB. Therefore, it seems that non-resident Boards, where Directors continue to assume often important responsibilities at home, are more adept in appointing or electing Directors that meet the specific requirements of the MDB charters, even if the role is only a small part of the overall responsibilities of the Director.

10 The backgrounds of EDs were compiled from numerous sources and classified into various categorical variables: the latest annual reports and websites of each MDB, development institution and bilateral institution as of June 2021. The list includes 356 EDs across 21 institutions. While some institutions publish short biographies of their EDs, 13 of the 21 institutions under review do not provide such information. For these institutions, the biodata of EDs was gathered from a wide range of external sources.

Table 1 Professional backgrounds of Executive Directors

MDB	Total	Residency	Of which: Banking/Finance/ Economics	Of which: Other fields	Share of Banking/Finance/ Economics	Of which: Career civil servants	Share of Career civil servants
CDB	19	Yes	19	0	100%	16	84%
AfDF	14	Yes	12	1	86%	9	64%
WBG	25	Yes	21	4	84%	19	76%
EBRD	23	Yes	19	4	83%	15	65%
IADB	14	Yes	10	3	71%	6	43%
AsDB	12	Yes	8	3	67%	8	67%
AfDB	20	Yes	11	6	55%	13	65%
CABEI	13	Yes	5	5	38%	3	23%
AIIB	12	No	12	0	100%	10	83%
NDB	5	No	5	0	100%	5	100%
EIB	28	No	27	1	96%	17	61%
TDB	10	No	9	1	90%	4	40%
CAF	19	No	16	3	84%	6	32%

Note: There was insufficient data for EDs at the IsDB, so it was left out of the analysis. See footnote 10 for more on the methodology.
Source: Authors' calculations based on websites, annual reports of institutions and external sources with biographical data for EDs as of June 2021

In addition, according to the AfDB Client Survey[11] in 2012, only two-thirds of shareholders sent the most senior, trusted and experienced officials to represent them on the BoD. If this pattern is replicated across MDBs with resident boards – which our conversations with MDB senior managers served at best to confirm or at worst to imply an overestimation – then the lack of senior leadership experience among most resident MDB Board members results in them being less than fully effective counterparts and interlocutors with MDB senior management. This is because a Board that can engage effectively on strategy requires a high level of experience, particularly in setting direction and managing change, expertise and institutional memory. This generally means relatively long terms of office for Board members and the recruitment of Directors with considerable experience (Higgs, 2003: 5).

The division of labour between BoD and management, and the delegation of authority. Several MDBs have clear policies for the delegation of authority from BoD to management, usually setting thresholds and criteria (which vary according to institution) for the type of projects that management can approve directly (see Table A1 in Appendix 2). In reality, the *de facto*

11 https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/The_preferred_partner_-_A_client_assessment_of_the_AfDB.pdf

dividing line is not well respected, with resident Directors able to approach staff directly with detailed comments and requests for additional information. The lack of clarity on the division of labour often implies blurred accountability and responsibility between management and the BoD. In most MDBs, this is compounded by the fact that the chair of the BoD is usually the President of the MDB, complicating the oversight function of this body, even if the President can usually only vote to break a tie. Notably, this means that the evaluation of the CEO by the Board becomes more difficult (Martinez-Diaz, 2008).

The most articulated framework for delegation is the AIIB's Regulation on the Accountability Framework, which took effect in January 2019. The purpose of this framework is to permit the Board to focus on Bank strategy and policies, and the President on the daily operations of the bank, within a framework of accountability to the Board. The Board delegates authority for the approval of all financing operations to the President, apart from defined exceptions which are reserved for the Board: precedent-setting (e.g. first sovereign and non-sovereign operation in a Member country, operations in a new sector in a Member country, new financing instruments and a new co-financier), significant strategic and policy issues (e.g. non-member state, sector for which the Board has not approved the strategy) and thresholds reflecting the Board's risk tolerance (see Appendix 2 for specific criteria and thresholds). While the President at the AIIB has delegated authority for loan approval, they are required to promptly inform the Board on all projects approved under this authority and must provide the Board with an Investment Operations Quarterly Monitoring Report that offers a summary of all projects approved by the Bank. The Board annually reviews the President's performance in project financing delegated authority. Furthermore, any Director can for any reason require a project to go before the Board for discussion and approval.

Direct opportunity costs of full-time resident Boards. While the costs of Boards are a fraction of the total operating costs of each MDB, a resident Board requires funding to cover the expenses of ED offices and their staff. Among MDBs, figures range from an annual $17 million at the AsDB to $84 million at the World Bank, where it is the single largest expenditure item under the institutional, governance and administrative budget. Costs are close to zero where the Board is non-resident. Non-resident Board members work part-time and their salaries are covered by their home institutions/ministries; only travel expenses are included in MDB budgets (Table 2).

Resident Boards also generate indirect and opportunity costs as they meet frequently. Meetings of resident Boards are frequent, from two to three times per month (EBRD) to more than twice a week (AfDB, World Bank) (see Table 3: IDEV, 2018). In addition, considerable time is spent in Board committee meetings. The report of the Zedillo Commission, published in 2009, noted that time spent in Board meetings at the World Bank was in the range of 500–600 hours a year between 2000 and 2005, with an additional 200–300 hours in Board committees. Board meetings are far less frequent when the Board is non-resident, from three times a year (e.g. IFAD and CAF) to 10 times a year (EIB) (see Table A1 in the Appendix).

Table 2 Costs of the Board of Governors and Board of Directors

	Residency of the BoD	BoG (cost in US$ million)	BoD (cost in US$ million)
World Bank	Yes	6.30	84.40
IADB	Yes	4.00	21.90
AfDB	Yes	9.41	21.36
AsDB	Yes	2.36	17.10
EBRD	Yes	1.56	17.91
CaDB	Yes	Travel and subsistence costs only	25.00
CABEI	Yes	n/a	n/a
EIB	No	Not applicable	Travel and subsistence costs only
CAF	No	n/a	n/a
IsDB	No	n/a	6.39
AIIB	No	Travel and subsistence costs only	Travel and subsistence costs only
NDB	No	n/a	n/a
IFAD	No	Not applicable	5.04
Gavi	No	Not applicable	Travel and subsistence costs only
GFATM	No	Not applicable	1.60
GCF	No	Not applicable	0.33
GPE	No	Not applicable	1.95
TDB	No	Not applicable	0.81

Note: n/a not available
Sources: Websites and budget reports of individual institutions. Data as of June 2021

Table 3 Board meetings – number of meetings and items considered in 2016

MDB	AfDB	World Bank	IADB	AsDB	EBRD	CAF	GF	AIIB
Number of meetings	41	75	37	43	25	3	2	6
Total hours met	123	137	n/r	Approx. 100	n/r	18	32–40	55
Number of items considered/approved	82	184	n/r	72	n/r	30	31	59
Informal meetings	8	37	n/r	48	n/r	3	2	n/a

Note: n/r not reported; n/a not available
Source: IDEV (2018).

In sum, MDB Boards have a tendency towards too great an engagement on operational issues and too little focus on strategic issues, with a resident BoD especially likely to concentrate on day-to-day management. While EDs tend to have a background in economics and finance, there are usually no standard job descriptions against which their profiles are judged, and they might not have direct experience in development policy, project implementation and oversight.

There is some evidence that EDs in resident Boards tend to be less experienced with less directly relevant qualifications than those in non-resident Boards, which may increase their propensity to engage more on detailed issues instead of the strategic direction of the institution. Further, the particular challenges posed by resident Boards often relate to the high number of meetings, the pressure on MDB management to prepare for and respond to requests from the Board, and the desire for involvement in day-to-day operations rather than strategic oversight and supervision. In addition, while EDs strive to make decisions that will have a positive impact on institutions and their beneficiaries, they represent their shareholders and bring their national interests to bear on the day-to-day management of a multilateral banking institution, creating a conflict of interest in decision-making and management.

The challenges outlined above with MDB Boards, and especially with resident BoDs representative of government shareholders, inform the proposals presented in the next section.

5 Three proposals for reform of the governance structures of MDBs

Based on the analysis in Section 4, the principles for effective corporate governance and our own experience, we consider that there are strong arguments for reform of the organisation of the BoDs in legacy MDBs. In this regard, our conclusions are broadly in line with those of several eminent high-level independent panels.

With a view to maximising the development potential of each MDB and addressing the challenges of the status quo, we propose three options for the reform of resident BoDs of MDBs representative of government shareholders, as follows:

- Put in place measures to professionalise the recruitment of the members of the BoDs, while retaining the main features of the current Board structure (i.e. resident and with Directors representing government shareholders).
- Transform the current Boards (composed of representatives of government shareholders) from resident to non-resident.
- Replace the current Boards with non-resident Boards of independent Directors that are not representatives of government shareholders.

An intermediate option between the second and third proposal would be for the BoD to either include independent members alongside representatives of government shareholders, or include independent members in Board Committees. For example, the Audit Committee at the EIB is independent and reports directly to the BoG. Again at the EIB, the Board is able to appoint a maximum of six experts (three Directors and three Alternates), who participate in Board meetings in an advisory capacity without voting rights.

The proposals we outline here should be considered alongside further reforms to the division of responsibilities between management and the BoD (i.e. principles and policies of delegation to management and the adoption of accountability frameworks). We review each option for reform against the criteria for effective corporate governance as outlined in Section 3: BoD as 'strategic thinker'; BoD expected to fulfil a supervision/oversight role; clear criteria for the division of responsibilities between the Board and management; and a Board composition with the right skillset and breadth of perspectives. We rate each option against the criteria for effective corporate governance using a traffic light approach: red (no change compared to the status quo of a resident BoD representative of government shareholders); amber (some improvements vis-à-vis the status quo); and green (significant improvement against the status quo).

We are aware each option will imply amendments to either the articles of agreement or policies and procedures in each MDB. To be clear, we are not proposing any changes to the BoGs, which would continue to comprise representatives of all shareholders. Under all three options, the BoG would still meet at least once a year to set or review the institutional strategy.

5.1 Professionalisation of the recruitment of resident Boards of Directors

The minimum step that government shareholders can implement to improve the effectiveness and efficiency of governance structures in legacy MDBs is to establish an explicit process for the professionalisation of the selection of the members of the BoD. As noted, the articles of agreement of the legacy MDBs – at best – call for Directors to be 'persons of high competence in economic and financial matters' (e.g. AsDB Charter art. 30, c.1) but without any further details.

Under this option, we propose that the BoD remains resident and that Directors continue to represent government shareholders, but recommend that ED appointments are based on an assessment of their skills and expertise with reference to the mix of skills and expertise required by the institution. That is, Directors should be appointed with an assessment of their fit for a particular job description. Most Directors would be required to have a professional background in development, corporate leadership and management (and private sector experience if applicable to the particular MDB). Some Directors would be required to have more specific skills relevant to the institution, e.g. audit, finance, banking, development, economics. Appointments would continue to be made by constituency, but this should be based on a job description of required skills for the Board. Job descriptions – and subsequent amendments – should be approved, ideally by the BoG or at least by a dedicated Committee under their direct control. We suggest that appointments made in this way would result in Directors with more senior-level experience.

Because it remains resident, the BoD will likely continue to have greater involvement in day-to-day operations, so be less strategic than is optimal, and will continue to generate direct and opportunity costs for the institution. Directors would, however, continue to ensure political representation, have strong knowledge of the operations of the MDB and be available to respond rapidly to requests from management.

Under this option, the continued 'political' nature of the Board, comprised of government representatives, combined with the tendency of resident Directors to seek to be involved in detailed operational issues, would require the counter-balance of a chair of the Board that has the interests of the institution alone as their primary objective. We therefore propose under this option that the Board continue to be chaired by the President of the MDB.

This option for reform of the BoD will mean the professional and technical expertise of the EDs will be stronger than in the status quo, but without significant improvement on the other principles for effective corporate governance (focus on strategic thinking; oversight and supervision; clarity of responsibility) (Table 4).

Technical and political feasibility. This is the option closest to the status quo. It would not require changes to the articles of agreement, but only a formalisation of job descriptions for the EDs. According to the IDEV (2018) analysis, and as we point out in Section 4.2, Terms of references or job descriptions are drafted and available for EDs only at CAF and the World Bank (where they are informal only). They are under development for the AIIB at the time of writing, but are not available in the other institutions, to the best of our knowledge.

Table 4 Professionalisation of resident Boards of Directors representative of government shareholders

Focus on strategic thinking	Oversight and supervision	Clarity of responsibility for decision-making and accountability between shareholders and management	Strong professional/ technical expertise
Continued focus on day-to-day operations (as status quo) as Directors remain resident in the Bank, unchanged vis-à-vis the status quo.	Unchanged vis-à-vis current status quo at legacy banks.	Unchanged vis-à-vis current status quo at legacy banks.	Stronger than in the status quo because of recruitment against a tailored job description.

5.2 Non-resident Board of Directors representing government shareholders

The second option is a BoD representing government shareholders **that is non-resident**, i.e. not physically hosted at the MDB, and which meets only occasionally. The less frequent the Board meets, the further removed it is from the day-to-day business of the institution, and the more likely it is to be engaging in strategic thinking at the country and thematic levels. Indeed, setting country and thematic strategies and assessing institutional performance should be the core functions of the BoD. If MDB Boards are all managed directly from capitals – as non-resident Directors tend to be senior officials in charge of MDB affairs or within the division dealing with MDBs – another advantage is that shareholders can focus on a system-wide approach to MDB governance. Successful precedents for non-resident BoDs now exist – as we reviewed earlier – especially for cooperative and borrower-dominant MDBs. The AIIB provides a template.

Related to the change from resident to non-resident, we would strongly suggest that Directors are appointed at a much more senior level, if possible at Director-General level. The more part-time nature of the role and its non-residency should facilitate an increase in the seniority of Directors. At the same time, we recognise that this option does not allow for a competitive selection of Directors against job descriptions and based on merit, and so does not allow for ensuring that the Board has the required mix of skills and expertise. This should be counter-balanced by having Directors playing a greater strategic role.

A non-resident Board is associated with lower costs and a greater focus on strategic direction. The BoD is not expected to know the institutions intimately, but this downside should be addressed by more autonomy, delegation and trust of MDB management. As discussed in Section 4.1, based on current practice from rating agencies, we know that it is not residency or non-residency that significantly affects the credit rating of the institution. In Section 4.2, we have shown how the share of EDs with a background in banking, finance or economics is significantly higher in MDBs with a non-resident Board than in MDBs with a resident Board.

Under this option, we consider that a choice needs to be made as to who chairs the Board. While a chair from among the Directors would allow for better clarity on the division of labour and better oversight of management, the more 'political' nature of a Board represented by government representatives would, as in option 1, need a counter-balance with a President that has the interests of the institution alone as their primary concern.

Table 5 summarises how this option for governance reform of the BoD would improve its alignment to the principles of effective corporate governance, in particular the focus on strategic thinking.

Table 5 Non-resident Board of Directors representative of government shareholders

Focus on strategic thinking	Oversight and supervision	Clarity of responsibility for decision-making and accountability between shareholders and management	Strong professional/ technical expertise
It would be the main focus of the activities of the BoD. The move away from day-to-day business is facilitated by the Board being non-resident and distanced.	This would be considerably facilitated by the change to non-residency, but to be fully effective some policies/practices may need to be aligned to the change.	This would be considerably facilitated by the change to non-residency, but to be fully effective some policies/ practices may need to be aligned to the change.	Non-resident Directors are more likely to be more senior and more valued officials, likely to bring greater expertise and experience than non-resident Directors. At the same time, there is no competitive selection and it is not clear that such Directors would be chosen with a view to filling specific skills gaps on the Board.

Technical and political feasibility. In the legacy MDBs, the articles of agreement specify that the BoD is in continuous session and/or at the principal office of the Bank (e.g. in the case of the IBRD, the Board Directors 'shall function in continuous session at the principal office of the Bank' (IBRD articles of agreement, Section IV e)). A shift to a non-resident Board could be achieved through a different interpretation of the charters, rather than through amendments, as argued in the Zedillo Report on the reform of World Bank governance. In terms of feasibility, the non-resident Board at the AIIB has set an important political and technical precedent among many shareholders of legacy MDBs.

A shift to a non-resident Board means less control over the institution and its day-to-day management by its government shareholders. While resident Boards generate costs, some shareholders might also be reluctant to give up positions that used to be a stepping-stone in the career of civil servants and political figures, or equally/increasingly are used to ease their exit. Some large shareholders of legacy MDBs – e.g. the US and Japan – are not part of any MDB whose BoD is non-resident, except for IFAD.

5.3 Non-resident independent Board of Directors

Under this proposal, members of the Board would not represent government shareholders, but would be selected as independent Directors who have only the institutional interest in mind. Professional recruitment would also allow for the mix of backgrounds and skills required to ensure effective oversight of the MDB's policies and operations. Directors would be appointed by a nominations committee following a competitive process. The members of the nominations committee should be experts in their field, proposed by MDB management and approved by the BoG. The BoDs would be small, independent and 'non-executive'. This proposal is the furthest away from the status quo.

One current example of an MDB Board similar to this is the TDB. It has one of the smallest Boards among the MDBs reviewed, composed of non-executive Directors appointed with a mix of backgrounds and affiliations.

An intermediate option to a fully independent BoD would be either having independent Board members alongside representatives of government shareholders, or a Board Committee with independent members only. For example, the EIB has an independent Audit Committee that reports directly to the BoG. There are six members and three observers. They are not members of the BoD, nor alternates or advisers to the Board, and are appointed for their expertise in audit.

Under the proposal for an independent BoD, the BoG would retain responsibility for the mandate of the institution and long-term institutional strategy. The BoD would set country and thematic strategies and assess performance, delegating day-to-day operations to the management of the MDB.

Such a Board should be associated with greater delegation to management, although delegation of project approvals and some areas of operational policy or strategy would require a change to existing policy in most MDBs. Specifically, the focus of the BoD would be on setting the annual business plan; measuring and reporting on the performance of MDB management to the BoG; approving a delegation framework or policy which sets the criteria for delegating the approval and management of the vast majority of projects to management; and approving key policies (e.g. fiduciary risk, treasury policy and accountability, evaluation criteria and integrity policy).

Under this proposal, 'shareholders' would no longer be involved in operational policies and strategies since Directors would not represent shareholders. Removing Directors whose primary allegiance is to their home government should mean less control from capitals, which may mean a significant change, especially in creditor-led institutions. This option is also associated with less political interference in the operational decisions of the multilateral institution.

Given that shareholders would no longer seek representation on the Board, this should allow for a smaller Board which would have a higher quality of interaction among Directors and a more efficient decision-making process. The literature suggests that Boards are most effective when they have at most 12 members (High-Level Commission on the Modernization of World Bank Group Governance, 2009).

This BoD should also be non-resident because its strategic and oversight work would not require a full allocation of Directors' time. In turn, this should prevent Directors from becoming unnecessarily involved in day-to-day issues which should be in the purview of management only.

We also propose that the **Board is chaired** by one of the Directors (selected by the Board itself), rather than by the President of the Bank. This would allow for much greater clarity in the division of labour between management and the Board, and would ensure better oversight. The Chair of the BoD should meet with the Chair of the BoG twice a year to ensure good links between the political (BoG) and institutional (BoD) levels. The President should be elected by the BoG on the basis of an open competition against a job description – rather than through nominations by shareholders – with a shortlist prepared by the BoDs. The BoG will continue to approve the overall strategy of the institution, and the BoD country/sector strategies.

Table 6 summarises how this proposal would score against the principles of effective corporate governance. It shows significant improvements in all dimensions.

Technical and political feasibility. This proposal for an independent non-resident Board is by far the most ambitious because it implies a fundamental change to the political participation of government shareholders and the control they can exercise over the MDBs through BoDs. This may be a particularly sharp change for some large-creditor shareholders that dominate decision-making in the legacy MDBs. Moving from a resident to a non-resident Board with a group of independent Directors appointed for their expertise (rather than as a representative of a government shareholder as well) are major shifts from the status quo, and in most MDBs will require a change in their charters: a different composition of the Board, representation and election criteria, even if most charters do not require Directors to be government officials. These legal changes require a large consensus – in the case of the IBRD 'three-fifths of the members, having eighty-five per cent of the total voting power' (Article VIII amendments).

Table 6 Non-resident Board of Directors not representative of government shareholders

Focus on strategic thinking	Oversight and supervision	Clarity of responsibility for decision-making and accountability between shareholders and management	Strong professional/ technical expertise
It would be the main focus of the activities of the BoD	It would be the main focus of the activities of the BoD	Shareholders focus on long-term strategy and mandate through the BoG; independent non-executive Directors focus on strategy-setting and oversight; and management concentrates on day-to- day operations. A Board Director would chair the Board, rather than the President	Chosen to fulfil a job description which is prepared with a view to the skills required to oversee the various functions of an MDB

6 Conclusions

This report offers three options for reform of the governance structures of MDBs to help stimulate further discussion as to how MDBs can maximise their development value and increase their relevance as development financiers.

At a minimum, the BoG should seek to professionalise the recruitment of resident Directors that remain representatives of shareholders, requiring each MDB to have job descriptions for its members, considering also the overall skillset of the Board, and to take this into account in future appointments.

On top of the professionalisation of the recruitment of Board members, an intermediate option is to make the current resident Boards in legacy MDBs non-resident. The AIIB and, for very much longer, the EIB have successfully operated with a non-resident Board. A non-resident Board does not directly affect the loan performance or credit rating of the institution. It also generally leads to Directors being appointed that are more senior and experienced, thereby supporting better decision-making and a more strategic orientation for the BoD.

The third option, a shift from government representatives to independent Board members that are not resident, would radically challenge the status quo, and would require changes in the charters of most MDBs. However, this is the proposal that would be most closely aligned with the principles of effective corporate governance – a technical and diversified BoD with a focus on strategy setting and oversight – ultimately to make MDBs more effective institutions.

The second and third options would require either a review of the articles of agreement or an alternative interpretation of charters. As such, they may be difficult to achieve without strong and collective leadership from creditor country shareholders. Even so, the multiple challenges that emerging and developing countries face mean that improving the effectiveness of the MDBs is more urgent than ever. The potential of MDB financing and operations should be maximised, requiring a governance structure geared towards boosting, and not hindering, the effectiveness of these institutions.

References

Birdsall, N. (2018) *The dilemma of the African Development Bank: does governance matter for the long-run financing of the MDBs?* CGD Working Paper 498. Washington DC: Center for Global Development (https://www.cgdev.org/publication/dilemma-afdb-does-governance-matter-long-run-financing-mdbs).

Birdsall, N. and Morris, S. (2016) *Multilateral development banking for this century's development challenges: five recommendations to shareholders of the old and new Multilateral Development Banks*. Washington DC: Center for Global Development (https://www.cgdev.org/publication/multilateral-development-banking-for-this-centurys-development-challenges).

Bittermann, H. J. (1971) 'Negotiation of the Articles of Agreement of the International Bank for Reconstruction and Developments' *The International Lawyer* 5(1): 59-88 (https://www.jstor.org/stable/40704645).

Boughton, J.M. (2001) *Silent revolution. The International Monetary Fund 1979–1989*. Washington DC: International Monetary Fund (https://www.imf.org/external/pubs/ft/history/2001/index.htm).

CGD – Center for Global Development (2006) *Construction de La Banque Africaine de Développement: Six Recommandations Pour La BAfD et Ses Actionnaires*. Washington DC: Center for Global Development (https://cgdev.org/sites/default/files/archive/doc/AfDB/AfDB_FR.pdf).

Chin, G. T. (2016) 'Asian Infrastructure Investment Bank: Governance Innovation and Prospects' *Global Governance: A Review of Multilateralism and International Organizations* 22(1): 11-25 (https://doi.org/10.1163/19426720-02201002).

Devex (2019) 'Governance reforms at MDBs and the role of resident boards'. Opinion. Devex (https://www.devex.com/news/opinion-governance-reforms-at-mdbs-and-the-role-of-resident-boards-94800).

Engen, L. and Prizzon, A. (2018) *A guide on multilateral development banks*. London: ODI.

Gardiner, R. and Pickett, J. (1984) *The African Development Bank 1964–1984*. African Development Bank: Abidjan.

Higgs, D. (2003) Report on the role and effectiveness of Non-Executive Directors. London: Department of Trade and Industry (https://ecgi.global/code/higgs-report-review-role-and-effectiveness-non-executive-directors).

Zedillo Report (2009) Repowering the World Bank for the 21st Century. High-Level Commission on Modernization of World Bank Group Governance (http://lnadbg4.adb.org/dir0035p.nsf/attachments/World%20Bank-Zedillo%20report.pdf/$FILE/World%20Bank-Zedillo%20report.pdf).

Humphrey, C. (2015) *Developmental revolution or Bretton Woods revisited? The prospects of the BRICS New Development Bank and the Asian Infrastructure Investment Bank*. ODI Working Paper 418. London: ODI.

IDEV – Independent Development Evaluation (2018) *Comparative study of Board processes, procedures and practices in International Financial Institutions*. African Development Bank: Abidjan (https://idev.afdb.org/en/document/comparative-study-board-processes-procedures-and-practices-bppps).

IEG – Independent Evaluation Group (2011) *The Global Fund to Fight AIDS, Tuberculosis and Malaria, and the World Bank's engagement with the Global Fund. Volume 1: main report*. Washington DC: World Bank (https://openknowledge.worldbank.org/handle/10986/27366).

Lichtenstein, N. (2018) 'Governance of the Asian Infrastructure Investment Bank in comparative context'. *AIIB Yearbook of International Law* (https://www.aiib.org/en/about-aiib/who-we-are/yearbook/_download/governance-aiib-comparative.pdf).

Martinez-Diaz, L. (2008) *Executive Boards in International Organizations: lessons for strengthening IMF governance*. Background Paper 08/08 Independent Evaluation Office of the International Monetary Fund. Washington DC: IMF (http://policydialogue.org/files/events/Martinez-Diaz_strengthening_IMF_gov.pdf).

Menkveld, P. (1991) *Origin and role of the European Bank for Reconstruction and Development*. London: Springer.

OVE – Office of Evaluation and Oversight (2021) Approach paper: Evaluation of the Inter-American Development Bank's governance. Office of Evaluation and Oversight, IDB. Washington DC: IDB (https://publications.iadb.org/en/approach-paper-evaluation-inter-american-development-banks-governance).

Spencer, S. (2006) Board Index, 2006: the changing profile of Directors.

Strand, J. (2003) 'Power relations in an embedded institution: the European Bank for Reconstruction and Development' *Journal of European Integration* 25(2): 115–129 (DOI: 10.1080/07036330305625).

von Müller, C. and Baumann, E. (2019) 'On the AIIB's Non-resident Board: strategic trade-offs, roles and responsibilities' *Global Policy* 10(4): 587-92 (https://doi.org/10.1111/1758-5899.12766).

Weber, S. (1994) 'Origins of the European Bank for Reconstruction and Development' *International Organization* 48(1)1: 15–16 (https://www.jstor.org/stable/2706913).

Wilson, D. (1987) *A bank for half the world: the story of the Asian Development Bank 1966–86*. Manila: Asian Development Bank.

World Bank Development Committee (1996) *Serving a changing world. Report of the Task Force on Multilateral Development Banks*. Washington DC: World Bank (https://documents1.worldbank.org/curated/en/492001493828548746/pdf/Serving-a-changing-world-report-of-the-Task-Force-on-Multilateral-Development-Banks.pdf).

Appendix 1
Comparison of governance structures

Governance and institutional features of MDBs are extensively covered in other publications (Birdsall and Morris, 2016; Engen and Prizzon, 2018). In Table A1, we summarise the main elements of the governance structures across global, regional and sub-regional MDBs. We compare these organisations with other institutions that have development mandates in specific areas, but that might either not be defined as banks (e.g. IFAD and the vertical health and climate funds) or that are bilateral institutions (e.g. CDC – now British International Investment, Kreditanstalt Für Wiederaufbau (German Development Bank) and China Development Bank). The selection of these institutions is illustrative rather than exhaustive, to allow a comparison with alternative governance models of multilateral and bilateral development organisations with similar mandates to MDBs.

				Board of Governors		Board of Directors									
		HQ	Year est.	Members	No. of borrowers[12] and regional representation (if applicable)	Members	Structure of constituencies	Ratio of Board size to membership	Residency	Job description	No. of Board meetings	Terms of office	CEO chair of the Board?	Performance standards for CEO?	Creditor/ borrower/ mixed-coop (Birdsall, 2018)
Global and regional multilateral development banks	World Bank Group – IDA	Washington DC, US	1960	173	104 borrowers	25	6 shareholders appoint their Director; 19 from constituencies	0.14	Yes	Informal	>2/week	No term limits for appointed EDs; 2-year, renewable terms for elected EDs	Yes	No	Creditor
	World Bank Group – IBRD	Washington DC, US	1944	189	77 borrowers			0.13							Creditor
	EIB	Luxembourg	1958	27	27 borrowers (EU members only)[13]	28	1 Director per member state, 1 Director from the European Commission	1.04	No	Informal	10/year	5 years renewable	Yes	No	Co-op (Creditor outside the EU)
	IADB	Washington DC, US	1959	48	26 borrowers and 22 non-borrowers 28 regional and 20 non-regional members	14	2 countries (Canada and US) have their own Director; others with constituencies	0.29	Yes	No	1/week	3 years, renewable	Yes	No	Mixed
	AfDB	Abidjan, Cote d'Ivoire	1964	81	54 eligible borrowers/regional members countries; 27 non-borrowers/ non-regional members	20	US has its own Director, all others in constituencies	0.25	Yes	No	2/week	3 years, renewable once	Yes	No	Borrower
	AfDF	Abidjan, Cote d'Ivoire	1974	29	32 ADF (borrower) countries, 5 blend; 28 non-regional members, 1 regional	14	US has its own Director, all others in constituencies	0.48	Yes	No	2/week	3 years, renewable once	Yes	No	
	AsDB	Manila, Philippines	1966	68	15 AsDB borrowers, 25 AsDF borrowers and 28 non-borrowers; 49 regional and 19 non-regional members	12	3 countries (Japan, US, China) have their own Director appointed, 9 from constituencies	0.18	Yes	No	1-2 /week	2 years, renewable	Yes	No	Creditor

12 We refer to 'borrowing countries' for ease of reference in Table A1. Countries are eligible for grants in certain institutions (concessional windows) and if they are in debt distress or at high/moderate risk of debt distress.

13 Non-EU members are not part of the Board.

				Board of Governors		Board of Directors									
		HQ	Year est.	Members	No. of borrowers[12] and regional representation (if applicable)	Members	Structure of constituencies	Ratio of Board size to membership	Residency	Job description	No. of Board meetings	Terms of office	CEO chair of the Board?	Performance standards for CEO?	Creditor/ borrower/ mixed-coop (Birdsall, 2018)
Global and regional multilateral development banks (cont.)	CAF	Caracas, Venezuela	1970	19	17 regional shareholders, 2 non-regional, 13 private banks in the region	19	No constituencies	1.00	No	Yes	3 in 2019	3 years	No	n/a	Co-op
	IFAD	Rome, Italy	1977	177	136 members	18	n/a	0.10	No	No	3/year	3 years	Yes	No	n/a
	IsDB	Jeddah, Saudi Arabia	1975	57	56 active borrowing members	18	9 countries have their own Directors appointed, others have constituencies	0.32	No	n/a	5/year	3 years, renewable	Yes	n/a	Mixed
	EBRD	London, UK	1991	72	39 borrowers and 33 non-borrowers; 70 countries, the EU and EIB	23	The EIB, EU and 6 countries have own Director appointed, other 15 are in constituencies	0.32	Yes	n/a	2-3/mo	3 years, renewable	Yes	No	Creditor
	AIIB	Beijing, China	2014	87	46 regional, 42 non-regional members	12	All constituencies	0.14	No	In progress	Quarterly, at least	2 years, may be re-elected	Yes	Yes	Borrower
	NDB	Shanghai, China	2014	7	Brazil, China, India, Russia and South Africa, Bangladesh, United Arab Emirates	6	No constituencies	0.86	No	No	Quarterly	2 years, may be re-elected	No	No	Co-op
Sub-regional development banks	CABEI	Tegucigalpa, Honduras	1960	15	5 regional founding members, 3 regional non-founding members, 7 non-regional members	13	No constituencies	0.87	Yes	n/a	As and when required	3 years	No	No	n/a
	CaDB	Wildey, St. Michael, Barbados	1969	24	19 borrowers, 9-non borrowers (5 countries are considered as one borrowing country)	19	5 constituencies	0.79	Yes	n/a	As and when required	2 years	Yes	No	n/a
	TDB	Bujumbura, Burundi	1985	39	22 regional members, 2 non-regional members, 15 institutional members	10	5 Directors for member states nominated by 5 respective constituencies, 1 Director nominated by non-African states, 1 nominated by African institutions and 1 Director for all other shareholders, 2 independent Directors	0.26	No	n/a	Quarterly, at least	3 years	No	n/a	n/a

			Board of Governors		Board of Directors									
	HQ	Year est.	Members	No. of borrowers[12] and regional representation (if applicable)	Members	Structure of constituencies	Ratio of Board size to membership	Residency	Job description	No. of Board meetings	Terms of office	CEO chair of the Board?	Performance standards for CEO?	Creditor/ borrower/ mixed-coop (Birdsall, 2018)
Sub-regional development banks (cont.)														
Arab Bank for Economic Development in Africa (BADEA)	Khartoum, Sudan	1975	18	–	11	9 largest shareholders appoint permanent Directors, remaining members select two non-permanent Directors (depending on weight of vote)	–	No	–	At least 3/year	4 year renewable	No	–	–
East African Development Bank (EADB)	Kampala, Uganda	1967	4	–	9	4 Directors per member states, 1 representative from Africa Development Bank (AfDB), 4 representatives from the member states' private sectors	–	No	–	4/year	3 years renewable	No	–	–
West African Development Bank (BOAD)	Lomé, Togo	1973	17	–	17	2 Directors per member state and institution	–	No	–	4/year	n/a	No	–	–
Ecowas Bank for Investment and Development (EBID)	Lomé, Togo	1975	15	–	9	3 shareholders have their own Director, plus 3 constituencies with 2 Directors each`	–	No	–	13/year	4 years	No	–	–
Development Bank of the Central African States (BDEAC)	Brazzaville, Republic of the Congo	1975		–	15	1 Director per Shareholder, 3 independent Directors (also from private sector), 1 Director from a non-regional shareholder country	–	No	–	3/year	3 years renewable	No	–	–

				Board of Governors		Board of Directors									
		HQ	Year est.	Members	No. of borrowers[12] and regional representation (if applicable)	Members	Structure of constituencies	Ratio of Board size to membership	Residency	Job description	No. of Board meetings	Terms of office	CEO chair of the Board?	Performance standards for CEO?	Creditor/ borrower/ mixed-coop (Birdsall, 2018)
Vertical funds	Gavi	Geneva, Switzerland	2000	–	–	28	10 Board seats are for country constituencies, the rest are institutions and individuals	–	No	Yes	2/year (at least)	3 years	No	Yes	–
	GFATM	Geneva, Switzerland	2002	–	–	28	20 country constituencies, rest are institutions and individuals	–	No	Yes	2/year	2 years, renewable	No	Yes	–
	GCF	Incheon, South Korea	2010	–	–	24	7 of the 12 developed country seats are not constituencies, all developing country seats are constituencies	0.12	No	Yes	3/year	3 years	No	Yes	–
	GPE	Washington, DC, US	2002	–	–	20	All constituencies	0.21	No	Yes	2/year	2 years	No	Yes	–
Bilateral development	CDC Group (now British Investment International)	London, UK	1948	1	FCDO is the only shareholder	10	–	–	Mixed	–	e.g. 5 times in 2020	No, every Director retires each year and can stand for re-election	No	No	–
	KfW Development Bank	Frankfurt, Germany	1948	37	Board of Supervisory Directors: 7 German federal ministers, 7 members appointed by the Bundestag and Bundestag each, remaining members are appointed by the German federal government after consultation with stakeholder groups	6	–	0.16	Yes	Yes	As and when required	3 years, extendable to 5 years	Yes	Yes	–
	China Development Bank	Beijing, China	1994	4	Ministry of Finance of China, Central Huijin Investment Ltd., Phoenix Tree Investment Platform Co., Ltd., and the National Council for Social Security Fund	13	3 executive Directors (including Chairman), 4 government agency Directors (unpaid), six equity Directors (unpaid, appointed by shareholders)	3.25	Mixed	–	e.g. 10 times in 2020	3 years	Yes	–	–

Note: n/a not available

Source: For a complete list of the sources, see the bibliography. In general, the analysis was based on the key institutional documents of the various entities (including the articles of agreement, by-laws, rules of procedure and operations manuals), websites of each institution, latest annual reports, financial statements and development effectiveness reports (where available). Comparable information across institutions was not always available; where relevant, alternative definitions and sources are noted.

Appendix 2 Delegation of authority to management

	The threshold for project approval by MDB Management
AsDB	Set thresholds – different between sovereign and non-sovereign operations – no major exception required, no major social and environmental impact, no new financing instrument, no significant financial assistance compared to the size of the country. More specifically, the BoD approves programmes and projects above the following amounts: • $50 million for policy-based loans or sector development programmes • $200 million for other sovereign operations and • $100 million for non-sovereign operations when the operation: • requires any major exception to an existing ADB policy, as determined by management • has the potential for significant adverse environmental economic and/or social impacts, particularly on vulnerable groups that may be unable to absorb such impacts • involves the use of a novel financing arrangement • involves significant financial assistance relative to the size of the developing member country in question, as determined by management.
EBRD	Set thresholds and multi-project facilities, more specifically: • Formal delegation for investment operations (individual projects and programmes and frameworks, for both loan and equity operations), for operations or frameworks below a threshold of **€25 million**. [14] • Since the mid-1990s, the Bank has had the practice of seeking BoD approval for **multi-project facilities**, under which decisions on individual sub-projects are delegated to management. • Under the above delegations, management approvals are given at different levels depending on the project/sub-project in question: at the Operations Committee (highest); at the Small Business Investment Committee; or by Designated Approvers (senior team Directors)(lowest). At each of these approval levels, approval can be escalated to the next level up, with the Operations Committee escalating projects to the BoD. • There are exceptions to the delegation authority even for projects below the financial thresholds. The following projects require Board approval: • Operations designated as 'Category-A' projects on environmental or social grounds • Operations that require derogation from Board-approved policies (e.g. Environment and Social Policy or the Procurement Policy) • First sub-operations under Frameworks.

14 A higher threshold was introduced as a pilot programme on 1 October 2016. When the nine-month pilot concluded on 30 June 2017, the Board agreed to adopt it as a permanent policy. The previous €10 million threshold had been in place since 1995.

	The threshold for project approval by MDB Management

AIIB	**Framework:** The framework for this authority and the overall relationship and accountability between the President and the Board is spelled out in detail in the 'Paper on the Accountability Framework' (undated) and accompanying regulation. The purpose of this framework is to permit the Board to focus on Bank strategy and policies and the President on the daily operations of the bank, within a framework of accountability to the Board.
	
	Criteria: The Board has delegated authority for the approval of all financing operations to the President, apart from defined exceptions which are reserved for the Board: precedent setting, significant strategic and policy issues and thresholds reflecting the Board's risk tolerance. More specifically:
	
	Category I – Precedent Setting:
	• The first sovereign-backed project in a Member.
	• The first non-sovereign-backed project in a Member.
	• The first project within the terms of a Sector Strategy in a Member.
	• The first project using a previously unused financing instrument.
	• The first project involving a particular co-financier in which AIIB proposes to apply one or several policies of such co-financier.
	
	Category II – Significant Strategic and Policy Issues:
	• A project in a non-regional Member.
	• A project where a corresponding Sector Strategy has not yet been approved by the Board of Directors.
	• A project requiring a derogation from a Sector Strategy, Policy or Framework adopted by the Board of Directors in accordance with Articles 26 of the Articles of Agreement.
	• A project which directly implicates the Operational Policy on International Relations (which, among other issues, relates to international waterways, disputed areas, de facto governments, UN resolutions – see AIIB, 2017b).
	
	Category III – Risk Tolerances:
	A project that falls into one of the following categories:
	• The amount of AIIB's economic capital utilised by the Bank's financing in a project is in excess of $25 million.
	• The amount of AIIB's financing for a project is in excess of any one of the following amounts:
	  • $200 million in the case of sovereign-backed financing or guarantees.
	  • $100 million in the case of non-sovereign-backed financing or guarantees.
	  • $35 million in the case of equity investments.
	
	At the time of the first review (no later than January 2022), the amounts will be adjusted to $300 million and $150 million respectively, unless otherwise determined by the Board.

Source: IDEV (2018) Comparative Study of Board Processes, Procedures and Practices in International Financial Institutions, AsDB Operations Manual – policies and procedures (OM L4), AIIB (2019) Paper on the Accountability Framework, AIIB (2019), Regulation on the Accountability Framework; EBRD DA Study