

Approach Paper

# Evaluation of the Inter-American Development Bank's Governance

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## ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
AUG	Office of the Executive Auditor
BoG	Board of Governors
BUFIPOL	The Budget and Financial Policies Committee
ETH	The Office of Ethics
EVP	Executive Vice President
EXD	Board of Executive Directors
GEF	Global Environment Facility
ICIM	Independent Consultation & Investigation Mechanism
IDB	Inter-American Development Bank
IFI	International Financial Institution
IMF	International Monetary Fund
LEG	The Legal Department
MDB	Multilateral Development Bank
OECD	Organization for Economic Co-operation and Development
OHRA	The Organization, Human Resources, and Board Matters Committee
OII	Office of Institutional Integrity
OVE	Office of Evaluation and Oversight
PEC	The Policy and Evaluation Committee
RMG	The Office of Risk Management
SEC	Office of the Secretary
SPD	The Office of Strategic Planning and Development Effectiveness
VPC	Vice President for Countries
VPF	Vice President for Finance & Administration
VPS	Vice President for Sectors & Knowledge

## I. INTRODUCTION

- 1.1 **This approach paper defines the objectives, scope, and methodology for the Office of Evaluation and Oversight's (OVE) evaluation of the governance of the Inter-American Development Bank (IDB).** The evaluation is included in OVE's 2020-2021 work program (document [RE-543](#)) in response to a request by the Board of Executive Directors to evaluate the IDB's governance arrangements. Drawing from similar evaluations, these aspects will be evaluated in four dimensions: effectiveness, efficiency, accountability and transparency, and voice (see Box 1.1).
- 1.2 **This will be OVE's first comprehensive evaluation of the IDB's governance.** On October 1, 2020, a new president assumed leadership of the Bank for the first time in 15 years, which makes this is an opportune time for its governing bodies to reflect on the Bank's governance arrangements and how they affect its ability to operate effectively and efficiently. This evaluation will provide the governing bodies an independent analysis of the Bank's governance arrangements.
- 1.3 **Independent evaluation offices in other international financial institutions (IFIs) such as the International Monetary Fund (IMF), the Global Environment Facility (GEF), and the African Development Bank (AfDB) have assessed their institutions' governance structures.** In 2008, the Independent Evaluation Office of the IMF evaluated the degree to which the Fund's governance arrangements allow the institution to operate effectively and efficiently, render it accountable, and provide the membership with voice in decision making.<sup>1</sup> In 2009, the GEF Evaluation Office conducted an evaluation to assess whether the governance system of GEF was adequate and up to international standards.<sup>2</sup> Finally, in 2018, the Independent Development Evaluation unit of the AfDB conducted a comparative study of board processes, procedures, and practices in IFIs.<sup>3</sup> These assessments provide important insights regarding the concepts, dimensions, and goals of governance that are important for the success of multilateral institutions. Their findings also highlight the challenges the governing bodies face with respect to balancing their various roles and responsibilities (see Table 1.1).

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<sup>1</sup> International Monetary Fund. Independent Evaluation Office. (2008). Governance of the IMF: An Evaluation. International Monetary Fund.

<sup>2</sup> Del Castillo, C. P. (2009). Evaluation of Governance of the GEF. GEF Evaluation Office.

<sup>3</sup> African Development Bank. (2018). Comparative Study of Board Processes, Procedures and Practices in International Financial Institutions. IDEV Knowledge Product.

**Table 1.1. Findings and dimensions of governance considered in evaluations conducted by other international organizations**

Evaluation	Governance dimensions	Main findings
Governance of the International Monetary Fund: an evaluation (2008)	Effectiveness, efficiency, accountability, and voice.	<ul style="list-style-type: none"> <li>• Greater clarity is needed in the respective roles of the main governance bodies (in particular, between the Board and Management) to minimize overlaps and to address possible gaps.</li> <li>• Need for more systematic ministerial involvement.</li> <li>• Need of reorienting the board's activities away from day-to-day operational activities so it can play a more effective role in strategy, monitoring policy implementation, and effective oversight of management.</li> <li>• A framework is needed to hold management accountable for its performance.</li> </ul>
Evaluation of Governance of the Global Environmental Facility. By Del Castillo (2009)	Representation, Effectiveness, Efficiency, Transparency, and Accountability.	<ul style="list-style-type: none"> <li>• The governance model seems adequate and compares well with other organizations in terms of representation and transparency, and to some extent effectiveness.</li> <li>• There are overlaps in the roles and functions of the governing bodies, and difficulties for Council to monitor progress in the implementation of programs and projects.</li> <li>• No mechanisms for the governing bodies to be held accountable by the membership and no institutionalized process of self-evaluation for the Council.</li> <li>• Need to redefine the roles and responsibilities of all the players in the network arrangement, to strengthen the partnership, to avoid overlap, duplication of efforts and to simplify implementation processes.</li> </ul>
Comparative Study of Board Processes, Procedures and Practices in International Financial Institutions. African Development Bank (2018)	Accountability, the functioning and operations of the Board, and the operational support received by the Board.	<ul style="list-style-type: none"> <li>• IFI boards and management struggle with finding an appropriate balance between oversight of strategy, risk, and results, and engaging in more executive, transactional activities, and decisions. Boards and senior management desire to shift the balance towards more strategic oversight.</li> <li>• Well-functioning board committees are important to reduce the burden of the full board, so it can focus on critical issues and in providing oversight.</li> <li>• The Secretary General offices have a critical role in the effectiveness and efficiency of corporate governance.</li> <li>• Greater delegation to management entails the ability to track Management commitments and results.</li> <li>• Importance of building an <i>esprit de corps</i> and a shared understanding of the opportunities and challenges among executive directors as officers of the organization, who otherwise represent different shareholder interests.</li> <li>• Building social capital among executive directors, and between the board and management, is vital for effectiveness and efficiency of corporate governance.</li> </ul>

Sources: IMF (2008), Del Castillo (2009), African Development Bank (2018)

1.4 **The Organization for Economic Co-operation and Development (OECD) defines corporate governance as "a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."**<sup>4</sup> Although there is no consensus on a single definition of corporate governance, the OECD's definition contains concepts and elements that are included in various definitions

<sup>4</sup> OECD (2015). OECD Principles of Corporate Governance.

from other sources for private, public, and multilateral entities.<sup>5</sup> The literature on good practices in corporate governance highlights fundamental objectives of corporate governance including setting and fulfilling the overall organizational *strategy and mission*, ensuring *accountability to stakeholders*, having an independent *oversight of management*, and *ensuring stakeholder rights* through disclosure, transparency, and voice.<sup>6</sup> These objectives provide a framework to evaluate corporate governance in four dimensions: effectiveness, efficiency, accountability and transparency, and voice (see Box 1.1, and Annex II). Although the IDB is an international organization, according to its governance documents, it has a set of primary stakeholders similar to private companies in its three governing bodies: The Board of Governors (shareholders), The Board of Executive Directors (board), and Management. The set of primary stakeholders is also consistent with those of other IFIs, which also have secondary stakeholders that include direct project beneficiaries, local communities, and civil society.

#### Box 1.1. Dimensions for evaluating corporate governance

**Effectiveness:** The capacity of *institutional arrangements* to deliver high quality, timely results to fulfil the organization’s mandate; specifically, to agree on *goals and strategies*, *implement them*, and *monitor their results*.

**Efficiency:** The costs (financial and time) of running the governance *structure*. It involves the alignment of the costs to the priorities of the organization, it requires processes that involve only as many steps and actors that are strictly necessary, and a clear and coherent division of responsibilities among the stakeholders.

**Accountability and transparency:** The ability of shareholders/stakeholders to hold the organization to benchmarking and standards, *judging their performance* through good reporting and *monitoring mechanisms (oversight)*. It includes how the different actors hold others (and themselves) accountable for the responsibility that has been delegated for the *delivery of strategy and objectives*.

**Voice:** The ability of shareholders and other affected stakeholders to have their views considered in the institution’s *decision-making process*. It involves channels for stakeholder’s opinions to be heard, and appropriate safeguards to protect those expressing views that are controversial.

Sources: IMF (2008), GEF (2009), Strand and Retzl (2016), AfDB (2018)

## II. IDB GOVERNANCE

- 2.1 **The IDB’s governance structure was developed at its founding in 1959 and its three governing bodies remain unchanged.** According to the Agreement Establishing the IDB (the Agreement), “The purpose of the Bank shall be to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively.” The Agreement also establishes the three governing bodies responsible for the Bank’s activities. Specifically, “The Bank shall have a Board of Governors, a Board of Executive Directors, a President, an Executive Vice President, a Vice President in charge of the Fund,<sup>7</sup> and such other officers and staff as may be considered

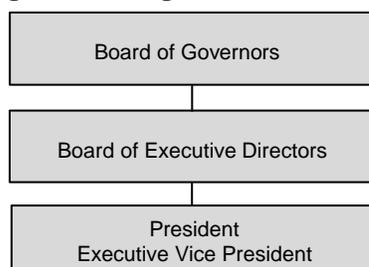
<sup>5</sup> Corporate governance definitions from the private sector, MDBs, and international organizations include relationships/structure, defining and attaining objectives (strategy), and monitoring/oversight. Sources: Aoki (2001), Goergen & Renneboog (2006), FAO (2007), IMF (2008), Del Castillo (2009), De Ollouqui et al. (2013), OECD (2015), Delikanli et al. (2018), FRC (2018), ASX (2019).

<sup>6</sup> Dalberg Global Development Advisors (2009).

<sup>7</sup> The Fund for Special Operations was the IDB’s concessional window. In 2017, its assets and liabilities were transferred to the Bank’s Ordinary Capital.

necessary.”<sup>8</sup> This governance structure is similar to most other Multilateral Development Banks (MDBs)<sup>9</sup> in that it has three governing bodies: (1) Board of Governors (BoG), (2) Board of Executive Directors (EXD), and (3) Management. The following paragraphs present an overview of the roles of each governing body per the Agreement (whose structure is shown in the Figure 2.1).

**Figure 2.1. IDB governance structure**



Source: Adapted from the IDB Basic Organization Chart (updated May 1<sup>st</sup>, 2020).

**2.2 The Board of Governors is the Bank’s highest governing body and is ultimately responsible for overseeing its activities and administration.** In practice, the BoG delegates many of its responsibilities to the EXD. Indeed, it may delegate to the EXD all its powers except twelve powers listed in Article VIII, Section 2(b) of the Agreement, which include the powers to admit or suspend members, increase or decrease the Bank’s capital, elect the President, and determine the remuneration of the Executive Directors and their alternates. Each member shall appoint one governor and one alternate, who shall serve for five years, subject to termination of appointment at any time, or to reappointment, at the pleasure of the appointing member.<sup>10</sup> Governors are usually ministers of finance, presidents of central banks or other high-ranking officials. The BoG holds a meeting annually, although other meetings may be held when the Board of Governors so provides or when called by the EXD.

**2.3 The Board of Executive Directors is responsible for the conduct of the operations of the Bank, and it may exercise all the powers delegated by the Board of Governors.**<sup>11</sup> The EXD is empowered to adopt rules of administrative and operating policy for conducting the business of the Bank and to consider and decide on all operations of the Bank.<sup>12</sup> The EXD has 18 other powers including the determination of the basic organization of the Bank and the general responsibilities of the chief administrative and professional positions of the staff, the appointment of Vice Presidents, examination of the Bank’s financial statements, and the approval of the budget of the Bank.<sup>13</sup> Executive directors shall be persons of recognized competence and wide experience in economic and financial matters but who shall not be governors.

<sup>8</sup> Agreement Establishing the Inter-American Development Bank (Article VIII, Section 1).

<sup>9</sup> Delikanli, I. et al. (2018) Multilateral Development Banks: Governance and Finance. Definition by the Cadbury Code, (Committee on the Financial Aspects of Corporate Governance in Great Britain).

<sup>10</sup> Agreement Establishing the Inter-American Development Bank, Article VIII, Section 2.

<sup>11</sup> Agreement Establishing the Inter-American Development Bank, Article VIII, Section 3.

<sup>12</sup> Agreement Establishing the Inter-American Development Bank, Article VIII, Section 3.

<sup>13</sup> Regulations of the Board of Executive Directors of the Inter-American Development Bank, Part II, Section 2.

- 2.4 **Management is headed by the President, who is the legal representative and chief of staff of the Bank, responsible for managing its operations and administration with support of the staff.** The president is also the presiding officer at meetings of the EXD, but “shall have no vote, except that it shall be his duty to cast a deciding vote when necessary to break a tie.”<sup>14</sup> The term of office of the President of the IDB is five years and may be reelected to one successive term.<sup>15</sup> Management also formally includes the Vice Presidents and IDB staff. The Executive Vice President (EVP) of the IDB is appointed by the EXD on the recommendation of the President of the Bank. The EVP is responsible for the daily operation of the Bank and for advising the President on corporate planning issues. In addition to the EVP, the current structure includes three other Vice Presidents within the IDB management structure: Countries (VPC), Sectors & Knowledge (VPS), and Finance & Administration (VPF).<sup>16</sup> These Vice Presidents report to the EVP in the following order of precedence: VPC, VPS and VPF. In the absence or incapacity of the President and the EVP, the VPC performs the function of the President and so on.
- 2.5 **The Board of Executive Directors and Management formally engage on governance issues such as strategy, operations, and oversight through the standing committees of the Board and the Committee of the Whole.** The EXD considers and discusses matters, usually in the form of a document or presentation prepared by Management, in the five standing committees and the Committee of the Whole (see Box 2.1), which also provides a final opportunity to discuss the matters from the standing committees before sending them for approval or information to the Board of Executive Directors.<sup>17</sup> All 14 chairs of the EXD participate in each committee and the Board of Directors. The Board also has a Steering Committee that is an advisory committee that reviews and confers with Management on all matters related to the preparation and follow-up on the Board’s work program and other relevant matters.<sup>18</sup> The Office of the Secretary (SEC) is responsible for providing secretariat services to the EXD committees, as well as to the BoG and IDB Management committees.

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<sup>14</sup> Agreement Establishing the Inter-American Development Bank, Article VIII, Section 5.

<sup>15</sup> Regulations for the Election of the President of the Bank, Section 2(c) (document [AB-2501-3](#)). Prior to these updated regulations (January 2015), the President was not subject to a term limit.

<sup>16</sup> VPC leads the dialogue with the borrowing countries, formulating country and regional strategies and coordinating the development of the operational SG programs. VPS designs and executes the Bank’s products in SG operations, developing knowledge on development challenges and disseminating Bank expertise to member countries. VPF mobilizes and manages the Bank’s resources and provision of support services, such as corporate procurement, finance, human resources, and legal matters. It directs the Bank’s representation on litigation, arbitration and other legal and administrative proceedings, also providing legal support to operations. Source: IDB Regulations (OR-VPC, OR-VPS and OR-VPF). These Vice Presidencies, along with the Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations, were created in the Bank’s Realignment, approved in 2006. In 2016, after the merge out of the private sector operations the Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations was eliminated.

<sup>17</sup> The Consolidated Procedures and Terms of Reference of the Standing Committees of the Boards of Executive Directors of the IDB and IIC. (document [DR-525-52](#)) present the purpose, responsibilities, and duties of the standing committees.

<sup>18</sup> The Steering Committee consists of the chairpersons of the standing committees of the IDB, the Executive Director of the Bank’s largest shareholder, the Dean, and the Vice Dean.

### Box 2.1. EXD standing committees, the Committee of the Whole, and the Steering Committee

- The **Audit Committee** assists the Board in its oversight of the Bank's financial reporting, risk management, audit functions, institutional integrity, and fiduciary aspects of its policies and activities. It also provides an open venue of communication between the External Auditor, Management, AUG, and OII.
- The **Budget and Financial Policies Committee** (BUFIPOL) oversees Management's administrative and capital budgets and reviews policies that affect the Bank's financial position.
- The **Organization, Human Resources, and Board Matters Committee** (OHRA) reviews proposals and makes recommendations to the Board and Management on issues concerning the organization of the Bank, human resources, information and communications technology, Board matters, and the Board of Governors and the Annual Meeting.
- The **Policy and Evaluation Committee** (PEC) reviews newly developed Bank policies and modification to existing policies, as well as new lending instruments, development effectiveness, evaluation, and oversight. PEC is also the channel of communication between EXD and OVE and ICIM.
- The **Programming Committee** considers and recommends actions to the Board on proposals, execution reports, and initiatives related to activities of the Bank's country and regional programming, monitoring of the loan portfolio results and outcomes, as well as the allocation of concessional resources and the programming of operations with in the IDB Grant Facility
- The purpose of the **Committee of the Whole** is to give preliminary and final consideration prior to submission to the Board for decision to such agenda or matters as deemed appropriate.
- The **Steering Committee** is an advisory body to the Board that reviews and confers with Management on all matters relating to preparation and follow-up on the Board's work program and other relevant matters.

*Source:* The Consolidated Procedures and Terms of Reference of the Standing Committees of the Boards of Executive Directors of the IDB and IIC (document [DR-525-52](#)) and The Regulations of the Board of Executive Directors of the Inter-American Development Bank" (document [DR-398-19](#)).

- 2.6 **Several specialized offices play important roles in the Bank's governance. The Office of Evaluation and Oversight (OVE) and the Independent Consultation and Investigation Mechanism (ICIM) are the two independent offices within the IDB that report directly to the EXD.** OVE is responsible for undertaking independent evaluations and oversight studies of the IDB's performance and of the development effectiveness of its work. It also monitors and reports to the EXD on the actions taken by Management to implement Board-endorsed evaluation recommendations.<sup>19</sup> The ICIM is responsible for investigating allegations from parties that they have been adversely affected by the IDB's failure to comply with its relevant operational policies in Bank-financed operations. The ICIM investigation process is independent from the Bank's management.<sup>20</sup>
- 2.7 **The Office of the Executive Auditor (AUG) and the Office of Institutional Integrity (OII) also play accountability and oversight roles, reporting to the Office of the President.** AUG, which also formally reports to the Audit Committee of the EXD, is responsible for providing independent and objective assurance, consulting services, and recommendations on governance, risk management, and control processes. It performs assurance and consultation services, presenting insights on specific priorities to Management and the EXD.<sup>21</sup> OII investigates allegations of prohibited practices, including violations of the Bank's standards of institutional integrity, in Bank-financed activities. It provides advice to the Office of the President, the Bank's senior

<sup>19</sup> Document [AM-140-1](#) Procedures to Review, Respond and Follow-Up on Evaluations prepared by the Office of Evaluation and Oversight.

<sup>20</sup> Policy establishing the Independent Consultation and Investigation Mechanism, Section B.

<sup>21</sup> Charter of the Office of the Executive Auditor, Sections A and B (document [DR-569-13](#)).

management, and the operational and fiduciary units of the Bank. It also reports on prohibited practices to the Audit Committee of the EXD.<sup>22</sup>

- 2.8 **In addition to the accountability offices, other specialized offices directly support the governing bodies.** The Office of Strategic Planning and Development Effectiveness (SPD) is responsible for ensuring that the corporate strategy is reflected in a corporate plan and in departmental planning, which guide resource allocation and key decisions aimed at the achievement of development results. The Office of Ethics (ETH) reports to the VPF and is responsible for providing impartial assistance to employees and Management in reviewing and resolving matters regarding ethics and conduct in the workplace.<sup>23</sup> The Legal Department (LEG), under the VPF, advises the President and Management – and BoG and EXD when appropriate – on all legal matters of the Bank. Finally, the Office of Risk Management (RMG) is responsible for providing advice to Senior Management and the EXD, in an effort to strengthen the Bank's capacity to identify, measure, and manage the credit risks in its loan portfolio and its treasury activities.<sup>24</sup>

### III. EVALUATION OBJECTIVE, SCOPE, QUESTIONS, AND METHODOLOGY

#### A. Objective and scope

- 3.1 **The objective of the evaluation is to assess the extent to which existing institutional arrangements at the IDB allow it to operate effectively and efficiently and provide sufficient accountability and transparency and stakeholder voice in decision making.** It will focus on the four dimensions described in Box 1.1. Specifically, it will seek to determine: 1) **Effectiveness:** The extent to which the IDB's governance arrangements allow the institution to effectively set strategic objectives, provide means to attain those objectives, and monitor performance; 2) **Efficiency:** The degree to which the costs (financial and time) of the IDB's governing bodies to perform their assigned roles and responsibilities are consistent with their priorities; 3) **Accountability and transparency:** The extent to which the IDB's governance arrangements render the IDB governing bodies accountable to its shareholders for the responsibilities delegated to them and the ability of secondary stakeholders to access information; and 4) **Voice:** The extent to which the IDB's governance arrangements provide the shareholders and secondary stakeholders with an adequate voice in decision making.
- 3.2 **The evaluation will consider relevant information and documents on the Bank's governance arrangements since the IDB's founding in 1959.**<sup>25</sup> It will also consider the perspectives of current and former members of the three governing bodies and secondary stakeholders as well as the governance practices of other institutions and good practice. The evaluation will focus primarily on the Board of Governors, the Board of Executive Directors, and Senior Management (which, for this evaluation, OVE defines as President, EVP, and Vice Presidents). Given the change in the Presidency on October 1, 2020, OVE will base its evaluation primarily on activities up until September 30, 2020. It will also focus most of its analysis on

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<sup>22</sup> IDB Regulations, OR-OII Office of Institutional Integrity ([OR-OII-2019-04-E](#)).

<sup>23</sup> IDB Regulations, OR-ETH Office of Ethics.

<sup>24</sup> IDB Regulations, OR-RMG Office of Risk Management ([OR-RMG-2020-03-ENG](#)).

<sup>25</sup> Since most of the documents have been updated over time, we will focus on the most current versions of the documents.

the ten years prior to this date since the governance arrangements have largely been unchanged during this period. Finally, the evaluation will include only the IDB and not IDB Invest or IDB Lab, which have different governance structures. OVE will concurrently evaluate these two entities in separate evaluations, although their governance will not be the primary focus of those exercises.

## **B. Evaluation questions**

3.3 **The principal evaluation question is:** To what extent have the existing governance arrangements at the Inter-American Development Bank allowed it to operate effectively and efficiently and provided sufficient accountability and transparency and stakeholder voice in decision making?

3.4 To address the dimension of **effectiveness**, the following sub-questions will guide the evaluation:

1. What are the roles and responsibilities of the three governing bodies?
  - a. Are the roles and responsibilities clearly defined?
  - b. Are the roles and responsibilities understood by the individuals in the three governing bodies?
  - c. How do the roles and responsibilities of the three governing bodies compare to good practices in corporate governance and other IFIs?
2. How have the staffing processes in each governing body allowed them to perform their roles and responsibilities?
  - a. Are the qualifications and terms of reference clearly defined for individuals in each governing body?
  - b. To what extent are the qualifications and terms of reference aligned with the defined roles and responsibilities of EXD and Senior Management?
  - c. To what extent have the skills and experience of the board allowed it to perform effectively as a whole?
  - d. To what extent have the onboarding and training processes in each governing body helped them to perform their roles and responsibilities?
  - e. How do the selection and staffing processes for the EXD and Senior Management compare to good practices in corporate governance and other IFIs?
3. What has been the role of each governing body in setting strategies, providing means to achieve the organization's objectives and goals, and monitoring the results?
  - a. How do the day-to-day roles that EXD and Management played compare to their defined roles?
  - b. How are the oversight and strategic roles of the Board balanced with executive responsibilities?
  - c. To what extent have specialized offices (such as SEC and other specialized offices) supported the governing bodies in their responsibilities?

4. To what extent have the governance arrangements encouraged the governing bodies to formulate strategic objectives, provide the means to implement them, and monitor their performance?
  - a. What are the decision-making processes (formal and informal) for the Board of Directors? Are they clearly defined and understood?
  - b. What has been the role of the Board committees in helping the governing bodies perform their responsibilities?
5. What other factors affected the three governing bodies' ability to operate effectively?
- 3.5 To address the dimension of **efficiency**, the following questions will guide the evaluation:
  1. How has the time devoted, in Board and Board committee meetings, to different types of governance issues compared to Board priorities, good practices, and that of other IFIs?
  2. What have been the costs of operating the Boards of Governors and Executive Directors and Senior Management? How do these costs compare to those of other IFIs in absolute value and as a percentage of the institution's administrative budget?
  3. To what extent have the governing bodies duplicated or performed a role or responsibility that was assigned to another governing body and were there any gaps in performing the roles and responsibilities?
- 3.6 To address the dimension of **accountability and transparency**, the following questions will guide the evaluation:
  1. How has Senior Management been held accountable?
    - a. What instruments have been available to monitor and evaluate Senior Management?
    - b. How do the instruments compare to those of other IFIs and good practices?
  2. How have Executive Directors been held accountable in their roles as country representatives and as officers of the IDB?
    - a. How has the Board held itself accountable?
    - b. What instruments are available to hold the Board accountable?
    - c. How do the instruments compare to those of other IFIs and good practices?
  3. To what extent have secondary stakeholders (such as civil society and local communities) had adequate mechanisms to hold the Bank accountable? Do they have adequate access to information on IDB activities?
- 3.7 To address the dimension of **voice**, the following questions will guide the evaluation:
  1. What is the composition of the constituencies of the Board? To what extent does the constituency structure affect the participation of shareholders?
  2. How have voting rules affected the dynamics of decision making in the IDB's Board of Executive Directors?
    - a. How do the voting rules compare to other IFIs?
  3. To what extent have secondary stakeholders (such as civil society and local communities) had adequate channels for their views and concerns to be considered?

## C. Methodology

- 3.8 **OVE will use mixed methods and various data sources during the evaluation.** These methods include a review of the IDB's governance documents, analysis of documents prepared for the Board committees including the time spent developing and discussing them and agenda items, and analysis of budget and human resources data. OVE will compare the information it gathers with these methods to that of other IFIs and good practice in corporate governance. OVE will complement the information it gathers in these analyses with interviews and surveys with key stakeholders. The main methods that OVE will use are described in more detail below. Annex 1 includes the evaluation matrix, which describes the data and methods that OVE will use to answer individual evaluation questions.
- 3.9 **Document Review:** The Bank's Boards of Governors and Executive Directors, through various documents since its founding, have defined how the Bank should be governed and the roles and responsibilities of the different governing bodies. OVE will review the IDB's governance documents to develop a baseline of its official governance arrangements. It will also compare the IDB's governance arrangements found in these sources with those of other IFIs and good practice in corporate governance (based on a review of the literature on good practice).
- 3.10 **Analysis of Board Documents:** Boards of Executive Directors have different roles and responsibilities that include strategy setting, monitoring, and oversight. OVE will analyze the types of documents and other agenda items discussed in the Board committees over the past 10 years. It will develop a typology for these documents and topics and assign them categories such as: strategic, oversight, operational, and informational. OVE will then analyze the distribution of the various categories and the time devoted to each category and compare them to the Board's priorities and other IFIs. It will also consider the roles of Management's committees in preparing documents for the Board.
- 3.11 **Analysis of Budget and Human Resource Data:** The dimensions of the governance structure have costs and benefits. OVE will analyze the budget data from the past 10 years for the different governing bodies and compare them to other institutions. OVE will also analyze the extent to which the individuals in the different governing bodies have the appropriate qualifications and experience necessary to fulfill their assigned duties. Specifically, OVE will review human resource data from the past ten years to determine the qualifications of the different governing bodies (without accessing personally identifiable information) and compare them to their assigned roles and responsibilities.
- 3.12 **Interviews and Surveys:** To complement the methods listed above, OVE will interview current and former members of the three governing bodies, as well as other stakeholders, such as IDB staff, civil society, and stakeholders from other IFIs. OVE will also prepare surveys for these groups. The interviews and surveys will help to confirm and triangulate the information and perceptions gathered by the other methods.

## IV. OVE TEAM AND TIMELINE

- 4.1 **Evaluation team:** The evaluation team includes Jonathan Rose (team leader), Josette Arévalo, Thaís Soares, and Andreia Barcellos. The team will also be supported by external specialist consultants. The work will be carried out under the supervision of the OVE Director, Ivory Yong-Prötzel.

- 4.2 OVE will conduct its evaluation activities during the remainder of 2020 through May 2021. OVE will deliver its final report in July 2021.
- 4.3 This will be a unique evaluation for OVE given that it will evaluate the Board, to whom it reports. Therefore, OVE will also include the Board in its the standard process of having Management review the final draft report before OVE distributes it to the PEC for discussion. Nevertheless, as is the case for all other evaluations, while OVE will review comments on the final report from the Board and Management, it will only make changes to the report if the comments reveal factual errors.

**Table 4.1. Indicative timeline of activities**

<b>Activity</b>	<b>Date</b>
Evaluation activities	August 2020-May 2021
Draft for external review	June 2021
Delivery to the Board of Executive Directors	July 2021

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## ANNEX I - EVALUATION MATRIX

**Principal Evaluation Question:** To what extent have the existing governance arrangements at the Inter-American Development Bank allowed it to operate effectively and efficiently and provided sufficient accountability and transparency and stakeholder voice in decision making?

Evaluation Questions	Information Required and Source(s)	Scope and Methodology	How judgement will be formed to answer the evaluation questions	Limitations
<b>I. EFFECTIVENESS: To what extent have the IDB's governance arrangements allowed the institution to effectively set strategic objectives, provide means to attain those objectives, and monitor performance?</b>				
<p>1. What are the roles and responsibilities of the three governing bodies?</p> <p>a. Are the roles and responsibilities clearly defined?</p> <p>b. Are the roles and responsibilities understood by the individuals in the three governing bodies?</p> <p>c. How do the roles and responsibilities of the three governing bodies compare to good practices in corporate governance and other IFIs?</p>	<ul style="list-style-type: none"> <li>• IDB documents.</li> <li>• HRD documents on employment of and TORs for Senior Management and EXD.</li> <li>• Other IFIs' reports, studies, and evaluations.</li> <li>• Stakeholder perspectives (semi-structured interviews with current and former Managers, Executive Directors, and Governors)</li> </ul>	<ul style="list-style-type: none"> <li>• Document review, comparison with good practices and other IFIs.</li> <li>• Qualitative analysis of interviews</li> </ul>	<p>a. Roles, responsibilities of the main governing bodies are clearly defined.</p> <p>b. Roles and responsibilities are understood by the individuals in the three governing bodies</p> <p>c. Comparison of roles and responsibilities with: -Good practices -Other IFIs</p>	<ul style="list-style-type: none"> <li>• Qualitative sample might not be generalizable.</li> </ul>
<p>2. How have the staffing processes in each governing body allowed them to perform their roles and responsibilities?</p> <p>a. Are the qualifications and terms of reference clearly defined for individuals in each governing body?</p> <p>b. To what extent are the qualifications and terms of reference aligned with the defined roles and responsibilities of EXD and Senior Management?</p> <p>c. To what extent have the skills and experience of the board</p>	<ul style="list-style-type: none"> <li>• IDB documents</li> <li>• HRD data on EXD and senior management staffing and the qualifications and experience of EXD and Senior Management.</li> <li>• SEC and KIC documents on the induction, knowledge and learning programs for EXD and Senior Management.</li> </ul>	<ul style="list-style-type: none"> <li>• Document review</li> <li>• Analysis of HRD data</li> <li>• Analysis of the information from the induction, knowledge, and learning programs.</li> </ul>	<p>a. Qualifications and terms of reference are clearly defined</p> <p>b. Qualifications and terms of reference are aligned with the defined roles and responsibilities</p> <p>c. The collective experience and skills of the individual members allow the Board of Directors to effectively perform its assigned role and responsibilities.</p> <p>d. Onboarding activities are adequate to help new individuals perform their roles and responsibilities. There are training processes in place, which individuals in governing</p>	<ul style="list-style-type: none"> <li>• Gathering information for the selection processes for all individuals in the EXD may be difficult (some countries may not have any concrete information on how they select individuals).</li> <li>• Some positions may not have a terms of reference and therefore a model job description may need</li> </ul>

Evaluation Questions	Information Required and Source(s)	Scope and Methodology	How judgement will be formed to answer the evaluation questions	Limitations
<p>allowed it to perform effectively as a whole?</p> <p>d. To what extent have the onboarding and training processes in each governing body helped them to perform their roles and responsibilities?</p> <p>e. How do the selection and staffing processes for the EXD and Senior Management compare to good practices in corporate governance and other IFIs?</p>			<p>bodies perceive as useful to perform their roles and responsibilities. Mechanisms are in place to ensure minimal loss of knowledge and expertise as a result of staff turnover and rotation.</p> <p>e. The selection and staffing processes for the EXD and Senior Management compare well to good practice and other IFIs. Turnover is consistent with that in other organizations and good practice in corporate governance.</p>	<p>to be developed to compare qualifications.</p>
<p>3. What has been the role of each governing body in setting strategies, providing means to achieve the organization's objectives, and monitoring the results?</p> <p>a. How do the day to day roles that EXD and Management played compare to their defined roles?</p> <p>b. How are the oversight and strategic roles of the Board balanced with executive responsibilities?</p> <p>c. To what extent have specialized offices (such as SEC and other specialized offices) supported the governing bodies in their responsibilities?</p>	<ul style="list-style-type: none"> <li>• IDB documents</li> <li>• OVE evaluations</li> </ul> <p>Stakeholder perspectives (semi-structured interviews and surveys with current and former members of the governing bodies)</p>	<ul style="list-style-type: none"> <li>• Document review</li> <li>• Development of examples of the roles of the different governing bodies in setting specific strategies, providing the means to achieve the objectives, and monitor the results.</li> <li>• Review of relevant OVE evaluations of policies and strategies to support the examples</li> <li>• Qualitative analysis of interviews</li> </ul>	<p>The members of the governing bodies are performing their assigned roles in setting strategies, providing means to achieve objectives, and monitoring the results.</p> <p>Perceptions of the stakeholders indicate that the activities and contributions are appropriate for the governing bodies' roles and responsibilities (including their own).</p> <p>a. Day to day roles are similar to the defined roles and responsibilities.</p> <p>b. The allocation of time between strategic/oversight roles and executive responsibilities is consistent with Board priorities and good practice.</p> <p>c. SEC and other specialized offices have provided governing bodies with useful and timely information to inform their decisions.</p>	<ul style="list-style-type: none"> <li>• Qualitative sample might not be generalizable.</li> <li>• Development of the examples may be limited by the turnover of Managers and Executive Directors.</li> </ul>

Evaluation Questions	Information Required and Source(s)	Scope and Methodology	How judgement will be formed to answer the evaluation questions	Limitations
<p>4. To what extent have the governance arrangements encouraged the governing bodies to effectively formulate strategic objectives, provide the means to implement them, and monitor their performance?</p> <p>a. What are the decision-making processes (formal and informal) for the Board of Directors? Are they clearly defined and understood?</p> <p>b. What has been the role of Board committees in helping the governing bodies perform their responsibilities?</p>	<ul style="list-style-type: none"> <li>• IDB documents, literature on good practices</li> <li>• SEC data and documents</li> <li>• Stakeholder perspectives (semi-structured interviews and survey) with current and former Executive Directors and Managers</li> </ul>	<ul style="list-style-type: none"> <li>• Document review</li> <li>• Review of SEC data and documents</li> <li>• Comparison with other IFIs and good practices.</li> <li>• Qualitative analysis of interviews.</li> </ul>	<p>Stakeholders perceive that the formal and informal governance arrangements allow them to effectively deliver, timely results to agree on goals/strategies and operational decisions and to implement them and monitor their results.</p> <p>Decision-making processes are understood by all chairs in the Board.</p> <p>SEC documents such as meeting minutes and committee chair reports demonstrate how the decision making was determined.</p> <p>a. Stakeholders perceive that the Board committees play a useful role in helping them perform their responsibilities. Comparison of governance arrangements and committee structures and processes with good practices regarding strategy/operational formulation, implementation, and oversight.</p>	<ul style="list-style-type: none"> <li>• Qualitative sample might not be generalizable.</li> <li>• Informal decision-making processes will rely heavily on stakeholder interviews and we may find different informal processes depending on the chair.</li> </ul>
<p>5. What other factors affected the three governing bodies ability to operate effectively?</p>	<ul style="list-style-type: none"> <li>• IDB documents, literature on good practices,</li> <li>• Stakeholder perspectives (semi-structured interviews and survey with current and former members of the governing bodies)</li> </ul>	<ul style="list-style-type: none"> <li>• Document review</li> <li>• Comparison with other IFIs and good practices.</li> <li>• Qualitative analysis of interviews and survey.</li> </ul>	<p>Incentive structures, information flow, and other factors have allowed governing bodies to operate effectively and efficiently.</p>	<ul style="list-style-type: none"> <li>• Qualitative sample might not be generalizable.</li> </ul>

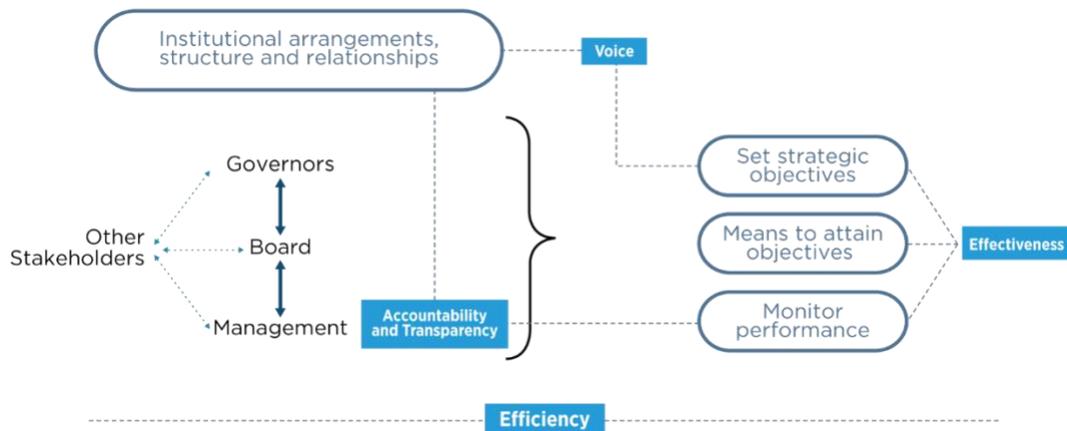
Evaluation Questions	Information Required and Source(s)	Scope and Methodology	How judgement will be formed to answer the evaluation questions	Limitations
<b>II. EFFICIENCY: To what degree have the costs (financial and time) of the IDB's governing bodies to perform their assigned roles and responsibilities been consistent with their priorities?</b>				
<p>1. How has the time devoted, in Board and Board committee meetings, to different types of governance issues compared to Board priorities, good practices, and that of other IFIs?</p>	<ul style="list-style-type: none"> <li>• IDB Board documents</li> <li>• Other IFIs documents</li> <li>• Governance literature on good practices</li> <li>• IDB SEC data (types of documents reviewed by Board, time spent discussing each type of document at committee and Board meetings, attendance at committee and Board meetings by Director, Alternate, Counselor, staff at various grade levels, etc.) and HRD data (T&amp;L)</li> <li>• Stakeholder perspectives (semi-structured interviews and survey) with current and former Executive Directors</li> </ul>	<ul style="list-style-type: none"> <li>• Document review, comparison with good practices and other IFIs.</li> <li>• Analysis of SEC and HRD data</li> <li>• Qualitative analysis of interviews and survey and Board documents to develop a set of Board priorities</li> </ul>	<p>The time devoted to each type of governance issue in Board and committee meetings is proportional to the relative importance assigned to each by the Board.</p> <p>Comparison of the time devoted to different types of governance issues with good practices and other IFIs.</p> <p>The financial and time costs of preparing for and participating in Board and committee meetings by Management, staff, and Executive Directors is comparable to those of other IFIs.</p>	<ul style="list-style-type: none"> <li>• Information from other IFIs might not be available</li> <li>• Different chairs may have different sets of priorities, which could make it difficult to develop one set of priorities for the Board</li> <li>• Qualitative sample might not be generalizable.</li> <li>• HRD and SEC data may not be detailed enough to accurately determine the time spent preparing documents for the Board. The data may also not be available from other comparator institutions.</li> </ul>
<p>2. What have been the costs of operating the Boards of Governors and Executive Directors and Senior Management? How do these costs compare to those of other IFIs in absolute value and as a percentage of the institution's administrative budget?</p>	<ul style="list-style-type: none"> <li>• IDB budget documents and databases</li> <li>• Other IFI documents</li> <li>• OVE Evaluations</li> </ul>	<ul style="list-style-type: none"> <li>• Cost analysis</li> <li>• Comparison to other IFIs</li> <li>• Review of OVE evaluations that have analyzed administrative costs</li> </ul>	<p>The financial costs of operating the Boards of Governors and Executive Directors are comparable to those of other IFIs and other offices within the IDB.</p>	<ul style="list-style-type: none"> <li>• Information on costs of other IFIs might not be available</li> <li>• Sensitive topic</li> </ul>
<p>3. To what extent have the governing bodies duplicated or performed a role or responsibility that is assigned to another</p>	<ul style="list-style-type: none"> <li>• IDB documents</li> <li>• Stakeholder perspectives (semi-structured interviews and survey)</li> </ul>	<ul style="list-style-type: none"> <li>• Document review</li> <li>• Qualitative analysis of interviews</li> </ul>	<p>There is no duplication of responsibilities among governing bodies.</p>	<ul style="list-style-type: none"> <li>• Qualitative sample might not be generalizable.</li> </ul>

Evaluation Questions	Information Required and Source(s)	Scope and Methodology	How judgement will be formed to answer the evaluation questions	Limitations
governing body and were there any gaps in performing the roles and responsibilities?	with current and former members of the governing bodies		There are no gaps in the performance of roles and responsibilities.	
<b>III. ACCOUNTABILITY AND TRANSPARENCY: To what extent have the IDB's governance arrangements rendered the IDB governing bodies accountable to its shareholders and stakeholders for the responsibilities delegated to them?</b>				
<p>1. How has Senior Management been held accountable?</p> <p>a. What instruments have been available to monitor and evaluate Senior Management?</p> <p>b. How do the instruments compare to those of other IFIs and good practices?</p>	<ul style="list-style-type: none"> <li>• IDB documents</li> <li>• Literature on good practices</li> <li>• Stakeholder perspectives (semi-structured interviews with current and former Executive Directors and Management)</li> </ul>	<ul style="list-style-type: none"> <li>• Document review</li> <li>• Comparison with other IFIs and good practices.</li> <li>• Qualitative analysis of interviews.</li> </ul>	<p>Perceptions, official processes, and documents show that Senior management has been held accountable for their performance.</p> <p>Instruments to monitor and evaluate Senior Management have been available and have been used and are comparable to those of other IFIs and good practices.</p> <p>Stakeholders perceive that instruments have allowed Senior Management to be adequately monitored and evaluated.</p>	<ul style="list-style-type: none"> <li>• Qualitative sample might not be generalizable.</li> </ul>
<p>2. How have Executive Directors been held accountable in their roles as country representatives and as officers of the IDB?</p> <p>a. How does the Board hold itself accountable?</p> <p>b. What instruments are available to hold the Board accountable?</p> <p>c. How do the instruments compare to those of other IFIs and good practices?</p>	<ul style="list-style-type: none"> <li>• IDB documents, literature on good practices,</li> <li>• Stakeholder perspectives (semi-structured interviews and survey with current and former members of the governing bodies)</li> </ul>	<ul style="list-style-type: none"> <li>• Document review</li> <li>• Comparison with other IFIs and good practices.</li> <li>• Qualitative analysis of interviews and survey</li> </ul>	<p>Accountability mechanisms are in place to ensure accountability of the Executive Directors.</p> <p>a. The Board of Directors has a credible and effective mechanism to hold themselves accountable.</p> <p>b. There are credible and effective instruments for others to hold the Board of Directors accountable. Stakeholders perceive that the mechanisms to hold EXD accountable are clearly defined and effective</p> <p>c. Instruments to hold the board accountable are comparable to those of other IFIs and good practices.</p>	<ul style="list-style-type: none"> <li>• Qualitative sample might not be generalizable.</li> </ul>

Evaluation Questions	Information Required and Source(s)	Scope and Methodology	How judgement will be formed to answer the evaluation questions	Limitations
<p>3. To what extent secondary stakeholders (such as civil society and local communities) had adequate mechanisms to hold the Bank accountable? Do they have adequate access to information on IDB activities?</p>	<ul style="list-style-type: none"> <li>IDB documents, literature on good practices</li> <li>Stakeholder perspectives (semi-structured interviews with current and former Managers, Executive Directors, and secondary stakeholders)</li> <li>OVE's evaluations of the ICIM.</li> </ul>	<ul style="list-style-type: none"> <li>Document review</li> <li>Comparison with other IFIs and good practices.</li> <li>Qualitative analysis of interviews</li> <li>Review of OVE's evaluations of the ICIM</li> </ul>	<p>Credible and effective mechanisms are in place for the secondary stakeholders to hold the Bank accountable</p> <ul style="list-style-type: none"> <li>Comparison of mechanisms with good practices and mechanisms of other IFIs.</li> <li>Secondary stakeholders are using the mechanism in place.</li> <li>Secondary stakeholders perceive that the channels in place allow them to be informed</li> </ul> <p>Adequate application of the Bank's access to information policy.</p> <ul style="list-style-type: none"> <li>The policy compares well to those of other IFIs and good practices.</li> <li>The policy allows for secondary stakeholders to stay informed in a timely manner.</li> <li>Secondary stakeholders perceive that the information is presented in a clear way that is easy to understand.</li> <li>Information about IDB activities is accessed by secondary stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>Qualitative sample might not be generalizable.</li> </ul>
<p><b>IV. VOICE: To what extent have the IDB's governance arrangements provided the membership and other stakeholders with voice in decision making?</b></p>				
<p>1. What is the composition of the constituencies of the Board? To what extent does the</p>	<ul style="list-style-type: none"> <li>IDB documents, literature on good practices</li> </ul>	<ul style="list-style-type: none"> <li>Document review</li> </ul>	<p>The composition of the constituencies of the board is well defined.</p>	<ul style="list-style-type: none"> <li>Qualitative sample might not be generalizable</li> </ul>

Evaluation Questions	Information Required and Source(s)	Scope and Methodology	How judgement will be formed to answer the evaluation questions	Limitations
constituency structure affect the participation of shareholders?	<ul style="list-style-type: none"> <li>Stakeholder perspectives (semi-structured interviews and survey with current and former Executive Directors)</li> </ul>	<ul style="list-style-type: none"> <li>Comparison with other IFIs and good practices.</li> <li>Qualitative analysis of interviews</li> </ul>	<p>Board members perceive that the composition of the constituencies of the board allows them to have voice in decision making.</p> <p>Composition of board constituencies compares to other IFIs and good practices.</p>	
<p>2. How have voting rules affected the dynamics of decision making in the IDB's Board of Executive Directors?</p> <p>a. How do the voting rules compare to other IFIs?</p>	<ul style="list-style-type: none"> <li>IDB official documents</li> <li>SEC data</li> <li>Stakeholder perspectives (semi-structured interviews with current and former Executive Directors)</li> <li>Other IFI documents</li> </ul>	<ul style="list-style-type: none"> <li>Document review</li> <li>Review of SEC data on voting</li> <li>Qualitative analysis of interviews</li> <li>Use of The Banzhaf index (BPI) and Coleman measures of voting power.</li> <li>Comparison with other IFIs voting rules and voting power</li> </ul>	<p>Perceptions of stakeholders regarding voting power and decision-making dynamics.</p> <p>Calculation of voting power measures (if data are available) and comparison of this measures with other IFIs.</p> <p>a. Voting rules are clearly established. Comparison of voting rules with good practices and other IFIs.</p>	<ul style="list-style-type: none"> <li>Sensitive topic</li> <li>Information to calculate voting power might not be available</li> </ul>
<p>3. To what extent secondary stakeholders (such as civil society and local communities) had adequate channels for their views and concerns to be considered?</p>	<ul style="list-style-type: none"> <li>IDB documents</li> <li>Stakeholder perspectives (semi-structured interviews and survey with current and former Managers, Executive Directors, and secondary stakeholders such as civil society and local communities)</li> </ul>	<ul style="list-style-type: none"> <li>Document review, comparison with good practices and other IFIs</li> <li>Qualitative analysis of interviews and descriptive analysis of survey</li> </ul>	<p>Formal institutional arrangements are in place to allow adequate channels for views of secondary stakeholders to voice their views and concerns.</p> <p>Secondary stakeholders perceive that they have adequate channels for their views to be considered.</p>	<ul style="list-style-type: none"> <li>Qualitative sample might not be generalizable.</li> </ul>

## ANNEX II - CORPORATE GOVERNANCE DEFINITION AND DIMENSIONS FOR EVALUATING THE IDB'S GOVERNANCE



### EVALUATION DIMENSIONS

Boxes represent components of governance definition

#### Relationships

↔ Formal relationships  
 ⋯ Informal relationships

#### Evaluation Dimensions

**Voice:** The ability of shareholders and secondary stakeholders to have their views considered in the institution's decision-making process. It involves channels for stakeholder's opinions to be heard, and appropriate safeguards to protect those expressing views that are controversial

**Effectiveness:** The capacity of institutional arrangements to deliver high quality, timely results to fulfil the organization's mandate; specifically, to agree on goals and strategies, implement them, and monitor their results.

**Accountability and transparency:** The ability of shareholders and secondary stakeholders to hold the organization to benchmarking and standards, judging their performance through good reporting and monitoring mechanisms (oversight). It includes how the different governing bodies hold others (and themselves) accountable for the responsibility that has been delegated for the delivery of strategy and objectives.

**Efficiency:** The costs (financial and time) of running the governance structure. It involves the alignment of the costs to the priorities of the organization, it requires processes that involve only as many steps and actors that are strictly necessary, and a clear and coherent division of responsibilities among the governing bodies.

Sources: OVE based on OECD (2015), IMF (2008), GEF (2009), Strand and Retzl (2016), AfDB (2018)

## Office of Evaluation and Oversight - OVE

Established in 1999 as an independent evaluation office, OVE evaluates the performance and development effectiveness of the activities of the Inter-American Development Bank Group (IDB Group). These evaluations seek to strengthen the IDB Group through learning, accountability and transparency.

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