ove Office of Evaluation and Oversight

Corporate Evaluation

Evaluation of the Inter-American Development Bank's Governance

IDB IDB | Invest

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IDB Invest

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Acronyms and Abreviations

AIIB	Asian Infrastructure Investment Bank
AUG	Office of the Executive Auditor
BOG	Board of Governors
CAF	Development Bank of Latin America (for its Spanish acronym)
ConSoCs	Civil Society Consultative Groups
COW	Committee of the Whole
CSO	Civil Society Organization
EVP	Executive Vice President
EXD	Board of Executive Directors
IDB	Inter-American Development Bank
IFI	International Financial Institution
IMF	International Monetary Fund
KIC	Knowledge, Innovation and Communication Sector
LAC	Latin America and the Caribbean
LEG	Legal Department
MDB	Multilateral Development Bank
MICI	Independent Consultation and Investigative Mechanism (for its Spanish acronym)

OECD	Organization for Economic Co-operation and Development
OHRA	Organization, Human Resources, and Board Matters
OVE	Office of Evaluation and Oversight
SEC	Office of the Secretary
VP	Vice President
VPC	Vice President for Countries
VPF	Vice President for Finance and Administration
VPS	Vice President for Sectors and Knowledge
WB	World Bank

Executive Summary

The Inter-American Development Bank (IDB) was founded in 1959 as an initiative of Latin American and Caribbean (LAC) countries and the United States to support the development of the region through an institution in which LAC countries would play a leading role through their majority capital and voting shares but with significant participation of the United States. The Agreement Establishing the Inter-American Development Bank (the Agreement; IDB 1959/1996) articulated the desired balance of responsibilities and power between LAC and the United States. It also provided that the IDB's governance would center around three governing bodies: the Board of Governors (BOG), the Board of Executive Directors (EXD), and Senior Management.

The objective of this evaluation, requested by the EXD, was to assess the extent to which existing institutional arrangements at the IDB allow it to operate effectively and efficiently while providing sufficient accountability, transparency, and stakeholder voice in decision making. The evaluation focused on four dimensions: (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 (in both money 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, such as civil society, project beneficiaries, and private sector entities, 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.

Effectiveness and Efficiency

The Office of Evaluation and Oversight (OVE) found that the roles and responsibilities of the IDB's three governing bodies are broadly defined at a high level, which leads to different understandings of these roles among members of the bodies and to some gaps. The

Bank's governance documents focus mainly on the powers of the governing bodies and provide more details on the functions of Senior Management (i.e., the President and the Vice Presidents, or VPs) than on the functions of the BOG and EXD. Therefore, members of Senior Management have more of a common understanding of their roles and responsibilities than members of the BOG and EXD have of their respective roles. The Executive Directors' understanding of their roles depends on the expectations of the respective Governors who appoint them. Their understanding is also informed by whether they represent a borrowing or non-borrowing country. The broadly defined roles and responsibilities also lead to gaps, mostly related to oversight. The IDB is not unique, since other international financial institutions (IFIs) also broadly define the roles and responsibilities of their governing bodies.

It is standard practice in corporations for management to develop and implement strategies, and for the board to provide management with guidance in shaping the strategies and ensure that management follows through on the agreed-upon commitments. At the IDB, for most types of strategies and other proposals that the EXD must approve, Senior Management develops the strategies and proposes them to the Board for approval, as per the functions listed in the Bank's organizational structure. In fact, since the IDB's founding, Management has taken the lead role in the development of policies and loans, while the EXD has focused more on executive activities, such as approving Management proposals, except for a few higher-level strategies such as cross-sectoral strategies and the strategic priorities designated in capital increases. OVE found that in part due to lack of a clearly delineated, cohesive, and commonly understood set of roles and responsibilities, there exists tension between the Board and Senior Management with respect to their roles in setting strategies, potentially allowing Management to influence the policies in a manner that is not fully aligned with the interests of the EXD.

Overall, the Bank's formal and informal interactions have allowed the governing bodies' performance of their roles and responsibilities, although the effectiveness and efficiency of these interactions could be improved. The Bank has formal interactions, such as its standing committee and Board meetings, and informal interactions, such as bilateral meetings and informal lunches, to help develop consensus on items that the EXD must approve. Nevertheless, Board members and managers stated the committee and Board meetings could be more effective and efficient with improvements to setting their agendas, managing meetings, and spreading out the meetings more evenly throughout the year. Other factors that affect the bodies' effectiveness in performing their roles and responsibilities include the frequent turnover of Board members, the insufficient information they receive, the fact that the Secretary of the Bank reports to the President, the different incentives of Board members, and the lack of a streamlined process for Management to track and manage Board requests. The national authorities who support the Governors do not perceive the Annual Meeting as effective in facilitating the BOG's discussion and development of strategic objectives.

The selection and appointment processes for the members of the IDB's three governing bodies reflect the fact that its shareholders are countries. Governors are senior government officials, they select their respective Executive Directors and, collectively, elect the President. Consistent with the way individual Board members are selected, compared with Senior Management, the EXD, as a group, has relatively more gaps in the skills and knowledge needed to perform its responsibilities. Finally, OVE found that a significant number of appointments at levels below the VPs occurred noncompetitively, in spite of Senior Management's commitment that staffing should be transparent and merit-based.

Consistent with good practice, the EXD has an induction program and a knowledge and learning program to support their ability to perform their fiduciary responsibilities. Nevertheless, these trainings have not always been timely, leaving some Board members to perform their responsibilities for months before receiving any induction or training. Furthermore, these trainings were not developed considering the Board members' skills gaps. Onboarding is also available to Senior Management, although OVE cannot determine its effectiveness.

There are several offices that serve the Bank while also providing support to the EXD in performing its responsibilities, especially with respect to oversight, with varying degrees of independence from Management. Some report directly to the Board (the Independent Consultation and Investigative Mechanism, or MICI, and OVE) or report to Management with a reporting line to the Board through the Audit Committee (the Office of the Executive Auditor, or AUG, and the Office of Institutional Integrity). Others report either directly to Management (the Legal Department, or LEG; the Ethics Office; the Office of Risk Management; and the Office of the Secretary, or SEC). The reporting lines of these offices are consistent with those of other IFIs; however, good practice in corporate and multilateral development bank governance holds that that the corporate secretary (SEC in the case of the IDB) should report primarily to and be held accountable by the Board. Many Board members reported that SEC, as well as LEG, did not provide them sufficiently independent support, because of their reporting lines to Senior Management.

The share of time that the EXD spends at meetings of the Committee of the Whole (COW)/EXD discussing various topics is not consistent with its priorities, although the time spent in the standing committees is relatively more consistent with priorities. The EXD has expressed a priority to focus its time more on strategy and oversight activities than on executive activities. However, in the COW/EXD, it spends 74% of its time discussing executive items such as loans, committee chair reports, and minutes that are presented for EXD approval. In contrast, the time Board members spend in the standing committees discussing various topics is more consistent with Board priorities, as oversight and strategy account for 45% and 20% of the time, respectively. Overall, when considering the total time in all meetings, Board discussion of strategy items accounts for only 15%, with discussion of executive and oversight items representing 35% and 33%, respectively. Finally, Board and committee meetings are not evenly distributed throughout the year, with some months having three times as many meetings as other months, which can affect the quality of the meeting discussions.

While the EXD's share of the Bank's total administrative expenses has been relatively constant over the past decade, at around 3.6%, Senior Management's share, while averaging 2.7% during that period, has been steadily increasing and is approaching that of the Board. The mandatory telework period for most of 2020 was not associated with reductions in the EXD's executed budget but was associated with a significant cut in Management's executed budget. Although comparisons with other IFIs are difficult given the different scope of operations and managerial structure, the IDB is in line with its comparators.

Accountability and Transparency

Although there are mechanisms to monitor and evaluate the Bank's activities, there is not a comprehensive framework to hold Senior Management or the EXD accountable. There are several mechanisms and instruments to monitor and evaluate the Bank's activities, such as the Corporate Results Framework, the Development Effectiveness Overview, reports from the independent and accountability offices, and Special Executive Sessions for Ethics Oversight. However, the EXD does not appear to effectively use all of these instruments, nor is there a comprehensive framework to hold Management accountable. The fact that the Bank's President is elected by the BOG and serves as the chair of the EXD complicates the EXD's ability to hold Senior Management accountable for its commitments, actions, and conduct. Furthermore, there is no instrument to hold the EXD accountable for its performance. Finally, the Bank has an Access to Information Policy and other mechanisms to promote the transparency of its activities to external stakeholders. Civil society organization (CSO) members that OVE surveyed thought that, in general, these mechanisms are adequate to inform them of the Bank's activities.

Voice

The composition of the EXD's constituencies allows some shareholders more participation in Board and committee meetings than others have. Some Board members stated that the multi-country constituencies can make it difficult for them to voice their opinion on items, both because it can be challenging to reach consensus among the countries prior to meetings and because a constituency cannot split its vote among its members. Some authorities and members of the EXD expressed concern that they have limited ability to place items on Annual Meeting and Board and committee meeting agendas, even though there are processes for them to do so. In general, members of the BOG and EXD have good access to Senior Management to express their views through formal and informal venues, including subregional meetings with Governors and bilateral meetings with Executive Directors. All country authorities and Board members that OVE interviewed were satisfied with their level of access to Senior Management. Finally, the IDB consults regularly with CSOs and provides different channels to hear the views of CSO members, yet at least one-third of CSO members that OVE surveyed reported either not having used any channels to voice their concerns or not knowing how to do so.

Based on the evaluation's findings, OVE recommends the following:

1. That the EXD establish a governance working group with the support of an independent facilitator, SEC, and OVE, to develop action plans for and ensure the implementation of the recommendations addressed to the Board. The working group should make sure that the final outcomes arising from the action plans and the Bank's official governance documents are consistent and consider both good practice in corporate governance and the practices of other IFIs. To fully implement the action plans, it may be necessary for the EXD to recommend that the BOG implement certain actions, including updating the Bank's governance documents. The working group will produce regular reports on the implementation of the action plans to the Steering Committee. The EXD may also mandate the working group to consider additional governance issues.

    a) The independent facilitator should be a person or firm with extensive experience in and knowledge of corporate governance and IFIs.

    b) SEC's role should be to facilitate meetings, keep records, and provide relevant Bank documentation.

    c) OVE's role should be to provide advisory services to the working group based on its findings from the analysis that it conducted during the evaluation.

2. That the working group oversee the drafting of a document that clearly delineates the EXD's and Senior Management's roles and responsibilities, and that would be submitted to the full EXD and subsequently to the BOG for approval. The document should

describe the roles and responsibilities in a cohesive manner, especially with respect to strategy setting and oversight, so as to minimize potential gaps or duplication. The working group should ensure that the document is properly discussed with Senior Management before it is sent to the full EXD and before it is sent to the BOG.

3. That the working group review and propose for EXD approval any relevant changes to the reporting line for the Secretary of the Bank and the structure and functions of SEC to reduce information asymmetries between the EXD and Management (which may lead to adverse selection) and to provide independent support to the Board.

4. That the working group propose measures for the EXD to ensure that it has an adequately diverse composition with the appropriate mix of skills and experiences to perform its responsibilities, and to mitigate EXD turnover, including the following:

   a) To assist the BOG in its selection of Board members, develop job descriptions for Board members (Executive Directors, Alternate Directors, and counselors) including an expectation of a minimum time in service, and ensure that these are understood by new Board members.

   b) Review and update the induction program and the knowledge and learning plan, to balance offering an understanding of the functioning of the Bank with addressing possible gaps in skills and experiences; the use of digital platforms is encouraged to ensure timely delivery.

   c) Develop specific training modules for the chairs of all standing committees and their staff to ensure a good understanding of their role and to improve their capacity to plan the work of the committee, develop meeting agendas, run the meetings efficiently, and improve the clarity of chair reports.

   d) Create a mechanism that allows the EXD, when needed, to engage subject-matter experts to provide the EXD with advisory services in areas where it lacks independent support, such as legal advice.

5. That the working group develop and ensure implementation of new processes and mechanisms, such as the following, to improve the efficiency of the COW/EXD meetings to provide more time for strategy and oversight discussions:

a) Make greater use of the Board Platform as the primary channel to streamline and facilitate Board statements and questions about loans and other matters in a manner that is transparent to all members of the Board and to allow staff to allocate their time more efficiently.

b) Provide another in-person venue for questions and answers about loan proposals, either in an informal meeting, in the Programming Committee, or through the creation of a new Loan Committee.

c) Create a tracking system for Board requests to Management in the Board Platform.

d) Vote electronically on most loans, while providing the opportunity for Directors to bring a loan up for discussion at the COW if necessary.

6. That the working group develop a comprehensive framework for the EXD to hold Senior Management accountable for its commitments, actions, and conduct. The framework should include a tracking system for Board requests to Management in the Board Platform. As part of this effort, the working group should also recommend to the BOG that it ensure that the Bank's Code of Ethics and Professional Conduct and the Code of Conduct of the Board of Executive Directors, the latter as long as the President is the chair of the EXD, apply to the President by including an explicit clause in the President's contract and in the codes stating their applicability to the President. The working group should also ensure that the EXD explicitly apply the Bank's Code of Ethics and Professional Conduct to the EVP and VPs by including in their contracts a clause stating the applicability of the code.

7. That the BOG consider discontinuing the President's role as chair of the EXD and delegating the election of the President to the EXD. These proposed actions would facilitate the EXD's ability to hold the entire Senior Management team, including the President, accountable for its commitments, actions, and conduct, as proposed in the previous recommendation.

8. That the working group, consistent with good practice and as a complement to the accountability framework for Senior Management, develop a self-evaluation for the EXD that it would conduct regularly, with the support of external experts.

9. That the working group, in consultation with the EXD, Senior Management, and SEC, develop a proposal to update the process for setting the agenda of the Annual Meeting to promote more interactive discussions with the Governors on the long-term strategic direction of the Bank.

10. That Senior Management prepare a succession plan, under the direction and guidance of the EXD, that would be implemented when there is a change in President, as historically the entire Senior Management team changes when a new President arrives.

11. That Management revise the Bank's hiring practices for external and internal candidates to ensure that transparent and competitive processes are in place and routinely used to fill both staff and management positions, including positions for sector and country managers as well as country representatives.

12. That the Bank publish the salary range for EXD members in its annual report, along with the salary ranges of Senior Management and staff.

01

Introduction

1.1 The Inter-American Development Bank (IDB) was founded in 1959 as an initiative of Latin American and Caribbean (LAC) countries[1] and the United States to support the development of the region. The idea was first developed in the 19th century, long before the establishment of the Bretton Woods institutions (the World Bank, or WB, and the International Monetary Fund, or IMF) but came to fruition only after those were created. The Agreement Establishing the Inter-American Development Bank (the Agreement), informed by the Articles of Agreement of the WB, stated, "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" (IDB 1959/1996, Article I, Section 1). It also articulated a balance of responsibilities and power between LAC and the United States by defining an institution in which LAC countries would play a leading role through their majority capital and voting shares but with significant participation of the United States.[2,3]

1.2 The IDB's governance comprises three governing bodies: the Board of Governors (BOG), the Board of Executive Directors (EXD), and Senior Management. The BOG, the Bank's highest governing body and the one ultimately responsible for overseeing its activities and administration, is composed of one senior official of each of the 48 member countries, often a minister. The EXD, "responsible for the conduct of the operations of the Bank" (IDB 1959/1996, Article VIII, Section 3), comprises representatives of each member country, working from headquarters in Washington, D.C., and is organized into 14 constituencies. Senior Management is led by the President, who "shall conduct the ordinary business of the Bank and shall be its chief of staff" (IDB 1959/1996, Article VIII, Section 5), and includes the Executive Vice President (EVP) and, under the current organizational structure, three Vice Presidents (VPs): for Countries (VPC), for Sectors and Knowledge (VPS), and for Finance and Administration (VPF). The Agreement specifies the main roles and responsibilities of those three bodies, which are broadly similar to those of other multilateral development banks (MDBs) (see Annex I).

1 English-speaking Caribbean countries, in fact, did not begin to join the IDB until their independence from Great Britain in the 1960s. Throughout this report, however, all borrowing countries are referred to as a block, regardless of the date at which they joined the IDB.

2 For a more detailed description of the IDB's founding, see Annex IV, Historical Development.

3 The borrowing countries of the IDB currently have 50.015% of voting shares in the BOG and the EXD. Borrowing countries of the Asian Development Bank and WB have less than 50%, while those of the African Development Bank have nearly 60%.

1.3 The IDB's governance arrangements and three governing bodies remain largely unchanged since 1959. The Agreement has been updated five times since 1959 (most recently in 1996), primarily to reflect the admission of new member countries, including non-regional ones, while maintaining both the balance of power between LAC and the United States and the regional character of the institution. Also, as permitted in the Agreement, in 1990 the EXD introduced standing committees (currently five) to discuss most items in a separate forum before bringing them to the Committee of the Whole (COW) for final discussion and then to the EXD for approval.

1.4 The EXD recently considered it to be an opportune time to take stock of the governance arrangements of the IDB and requested that the Office of Evaluation and Oversight (OVE) carry out this evaluation. In a context of sluggish economic growth and pre-2020 social tensions in the region that were only worsened by the pandemic, and with the Bank electing a new President in 2020, the EXD considered it opportune to assess the governance of the Bank and identify potential areas of improvement to better position the Bank for the future. The evaluation was included in OVE's 2020–2021 work program and the Approach Paper was issued In January 2021. This report focuses primarily on the functioning of and the interaction between the BOG, EXD, and Senior Management, and it is based on relevant information on the period from the IDB's founding in 1959 through September 2020, with a special focus on the past 10 years.[4]

1.5 The objective of the evaluation is to assess the extent to which existing institutional governance arrangements at the IDB allow it to operate effectively and efficiently, and to provide sufficient accountability, transparency, and stakeholder voice in decision making. It focuses on these four dimensions: (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 (in both money 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 its governing bodies accountable to its shareholders for the responsibilities delegated to them, and the ability of secondary stakeholders, such as civil society, project beneficiaries, and private sector entities, to access information; and (4) *voice*—the extent to which the IDB's governance arrangements provide the shareholders and

4 The evaluation included only the IDB and not IDB Invest or IDB Lab, which have different governance structures. OVE is concurrently evaluating these two entities in separate evaluations, although their governance is not the focus of those exercises.

secondary stakeholders with an adequate voice in decision making. The detailed approach to this evaluation is presented in document RE-553, and the complete set of evaluation questions can be found in Annex II, Box II.2.2.

1.6 The evaluation uses the definition of corporate governance developed by the Organization for Economic Co-operation and Development (OECD), as well as literature on international financial institution (IFI) governance. Although there is no consensus on a single definition of corporate governance, the OECD's definition comprises concepts and elements that are included in definitions from various other sources for private, public, and multilateral entities.[5] It is also the one adopted by the Financial Stability Board. According to the OECD, "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides a structure for these relationships through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (2015, p.1)." "Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring (FSB 2015)." Yet the evaluation recognizes that the IDB is different from corporations in its governance bodies' purposes and arrangement (as are other IFIs). Therefore, as part of the governance framework benchmarks for the evaluation, OVE also uses the literature on IFI governance; its own comparative analysis of the governance practices in IFIs; and official IDB documents such as the Agreement (IDB 1959/1996), By-Laws (IDB 1960), Regulations of the Board of Executive Directors (IDB 2020), terms of reference of the standing committees (IDB 2019), and documents describing the basic organization of the Bank. The literature on good practices in both IFI and corporate governance highlights the fundamental objectives of governance, including setting and fulfilling the overall organizational *strategy and mission*; ensuring *accountability to stakeholders*; having independent *oversight of management*; and *ensuring stakeholder rights* through disclosure, transparency, and voice (Dalberg Global Development Advisors 2009). These objectives provided the

5 Corporate governance definitions from the private sector, MDBs, and international organizations include concepts such as relationships/structure, defining and attaining objectives (strategy), and monitoring/oversight. *Sources*: Aoki (2001), Goergen and Renneboog (2006), FAO (2007), Independent Evaluation Office of the IMF (2008), Del Castillo (2009), Rodríguez et al. (2013), OECD (2015), Delikanli, Dimitrov, and Agolli (2018), FRC (2018), ASX Corporate Governance Council (2019).

framework to evaluate IDB governance arrangements in the four key dimensions of effectiveness, efficiency, accountability and transparency, and voice (see Annex II).

1.7 The evaluation also uses the principal-agent theory of accountability to frame the analysis. A principal-agent problem arises when a person or group (the principal, such as shareholders or citizens) is represented by another person or group that acts on its behalf (the agent, such as management or government) and the principal delegates responsibilities to the agent to make decisions in the principal's interest. Conflicts of interest arise because the agent may act in a way that is contrary to the interests of the principal. For example, the delegation of responsibilities by the principal to the agent leads to asymmetric information between the two parties, as the agent tends to have more information than the principal. As a result, when reaching agreement with the principal, the agent may have access to information inaccessible to the principal and may manipulate this information in ways that run against the principal's best interests, a phenomenon known as *adverse selection*. Another potential result, known as *moral hazard*, is that the agent may deviate from the principal's instructions by carrying out the delegated tasks in such a way as to advance its own interests, rather than those of the principal. The literature on corporate governance proposes solutions to resolve this problem and improve governance by aligning the agent's incentives with the best interests of the principal. Examples include designing contracts to address issues of information asymmetry and to determine procedures for monitoring agents, as well as tying compensation to performance evaluations or to benefits obtained by the principal.

1.8 The evaluation uses a mixed-methods approach to analyze relevant information and documents on the IDB's governance arrangements as well as other primary and secondary sources of information. The evaluation process included preforming desk reviews and analyses of quantitative and qualitative information from surveys and interviews, budget data provided by the Finance Department, and information provided by the Office of the Secretary (SEC) (see Annex II for a detailed description of the methodology). OVE interviewed 22 current and 6 former Executive and Alternate Directors, 17 managers and management advisors (6 former and 11 current), and Alternate Governors and senior government officials from seven countries who directly advise their Governors on IDB issues. In addition, OVE conducted a Board survey in which all current Board members were invited to participate (it had an 80% response rate), a Management survey in which managers and division chiefs were invited to participate (67% response rate), and a civil society survey in which members of CSOs that are part of the IDB's Civil Society Consultative Groups (ConSoCs) participated (15% response rate) (see Annex VII). The evaluation's findings are also based on an analysis of official IDB governance documents and the governance practices of other IFIs, as well as a literature review of good practice in corporate and IFI governance (see Annex III for the literature review and comparative analysis background paper). Finally, the findings also rely on (1) a study of the historical development of the IDB's governance arrangements (Annex IV); (2) a human resources study focused on the governing bodies' roles and responsibilities, skills, and training[6] (Annex V); and (3) an analysis of voting power (Annex VI).

1.9 The report has five chapters. The following chapters present the findings of the evaluation, organized along the four dimensions mentioned above, and are followed by a final chapter that presents conclusions and recommendations.

6 To reduce any perceived conflict of interest, since OVE reports directly to the EXD, OVE contracted an expert firm to conduct this analysis.

02

Effectiveness and efficiency

A. Roles and Responsibilities

2.1 While the roles and responsibilities of the IDB's three governing bodies are broadly defined at a high level, the roles and responsibilities of Senior Management are given a more detailed description. While the Agreement defines the powers assigned to the three governing bodies (see Annex I), it provides more detail on the functions of the President, who heads the Bank's Management, and the EVP than it does on those of the EXD. Further, the official documents describing the organizational structure of the Bank[7] provide even more detailed functions for the President, EVP, and the three VPs. In contrast, the Agreement simply states that the BOG shall hold all powers of the Bank, while the EXD "shall be responsible for the conduct of the operations of the Bank," "may exercise all the powers delegated to it by the Board of Governors," has a role in determining the basic organization of the Bank, and may appoint committees (IDB 1959/1996, Article VIII, Sections 2 and 3).[8] OVE notes that other IFIs define the roles and responsibilities of their governing bodies with similar levels of detail.

2.2 OVE found that while most Board members it surveyed indicated that their roles and responsibilities were generally clearly defined, this understanding varies across Board members. For instance, in interviews with OVE, Executive Directors provided different definitions of their roles and responsibilities, with some noting that they had fiduciary responsibilities such as being responsible for the conduct of the operations of the Bank (quoting directly from the Agreement), approval of operations, strategy setting, oversight, and accountability. Some Executive Directors also noted their role as representatives of their country through activities such as representing their country's interests at the Bank and increasing the Bank's visibility in their country, aspects that are not explicitly stated in the Agreement (see paragraph 2.1 and Annex I) and are not consistent with good practice in corporate governance. Conversely, the country authorities that OVE interviewed held a common understanding that the Governors' main role is to provide high-level strategic guidance

7 Including the following documents related to the three governing bodies: OR-BOG Board of Governors, OR-DIR Board of Executive Directors, OR-PRE President, OR-EVP Executive Vice President, OR-VPC Vice President for Countries, OR-VPS Vice President for Sectors and Knowledge, and OR-VPF Vice President for Finance and Administration.

8 Furthermore, OR-DIR states that the EXD "shall determine the basic organization of the Bank, including the number and general responsibilities of the chief administrative and professional positions of the staff, and shall approve the budget of the Bank. The Board of Executive Directors may [also] appoint such committees as it deems advisable. Membership of such committees need not be limited to governors, directors, or alternates." Despite listing these functions, the Agreement and the document describing the organizational structure of the Bank do not provide guidance on the daily functions of the EXD.

and oversight of the Bank, while current and former members of Senior Management demonstrated a clear understanding of their roles and responsibilities, consistent with the functions assigned to them.

2.3 The Executive Directors' perceived roles and responsibilities differ based on the expectations of their Governors. The Executive Directors are appointed by their governments to represent their country or constituency, and therefore they play the role of representative of their countries.[9] According to interviews, in general, Executive Directors regularly communicate with their authorities (either the Governor or officials who work in the ministry or department that is led by the Governor) to inform them and, in many cases, to receive instructions for positions they should take on policies, strategies, and operations. Given the lack of a unified set of detailed functions for the Executive Directors, the expectations of the Governors play an important role in defining the individual Directors' roles and responsibilities.

2.4 Furthermore, given the different views across countries, and the fact that 26 countries are borrowing countries and 22 are non-borrowing countries, the prioritization of their roles differs. Balancing a variety of interests is not uncommon in corporate boards, but having almost an equal shareholding between borrowing and non-borrowing Directors creates a unique dynamic at the IDB's EXD. For example, according to the interviews, Executive Directors from borrowing countries generally prioritize their role as a representative of their country to facilitate the loans their authorities seek. On the other hand, Executive Directors from non-borrowing countries generally prioritize their fiduciary role, while also furthering the political goals of their governments in the region. According to the survey OVE conducted with Board members, those from borrowing countries are more likely than those from non-borrowing countries to see their role as a representative of their country to be in conflict with their fiduciary role. While the role of Board members being country representatives is common in IFIs, it is inconsistent with good practice in corporate governance, which states that directors should work in the long-term interests of the institution on whose board they sit, as opposed to the current interests of one shareholder.

2.5 OVE found that despite the variance in their perceived roles and responsibilities, the Board members expect to play a more strategic and oversight-focused role than an executive role. For

9 The Agreement states that the decisions of the President, EVP, and staff shall be based on economic but not political considerations. However, this does not apply to the EXD. Furthermore, the Code of Conduct of the Board of Executive Directors recognizes that while Executive Directors are entrusted with the conduct of the Bank, they are also representatives of the country or countries that appointed or elected them.

example, Board members surveyed by OVE ranked strategy and oversight as the two most important Board activities. Further, in interviews, they stated that they would prefer to spend more time on these activities and less time on executive activities such as project approvals. For example, many noted that while they discuss most projects that they approve, they rarely discuss the projects' achievement of results. Boards at peer institutions also struggle to keep their discussions and decision making at a strategic level. Good practice in corporate governance requires the Board to ensure that the Bank's activities are aligned with the objectives set by the BOG through its organizational documentation and practices, and to use these objectives as a lens for evaluating all decisions it is empowered to make, but especially those relating to long-term strategy and strategic priorities. However, aside from capital increase agreements, which are infrequent, the BOG does not provide regular guidance on long-term strategy and strategic priorities.[10]

2.6 OVE found that there are gaps in the assignment of some roles and responsibilities. Given that the Agreement grants all powers to the BOG, which can delegate all but 12 of these powers to the EXD (see IDB 1959/1996 and Annex I, Box I.1.1), there are no gaps in the formal powers. However, the assignment of some roles and responsibilities is not clearly defined in the Bank's governance documents—in particular, with regard to areas such as the monitoring of performance, impact, and risk.

2.7 Furthermore, members of the governing bodies perceive gaps in the performance of roles and responsibilities, which OVE attributes, in part, to the lack of a clear delineation of their functions and of adequate mechanisms to support these functions. The roles and responsibilities of the IDB's governing bodies are referenced in many different sources, making it difficult to understand the full picture. Thus, it is not surprising that members of the governing bodies stated that there were significant gaps in performing roles and responsibilities related to the objectives of governance stated in paragraph 1.6. For example, all of the country authorities OVE interviewed noted that there is no mechanism for them to hold Senior Management accountable for its commitments, actions, and conduct. Almost half of the Board members OVE surveyed responded that there are gaps in the performance of roles and responsibilities in the following areas: mechanisms for the EXD to hold Senior Management accountable; oversight of the performance of the Bank's operational portfolio; independent legal advice and independence in the audit, ethics, and integrity

10 The Annual Meetings of the BOG tend to be ceremonial, with the BOG fulfilling its statutory requirements, such as approving financial statements and the sites of future meetings, as well as submitting written statements, while Management makes presentations on current issues in the region.

offices; and systematic reporting to the EXD on the hiring and removal of key senior personnel. In addition, Board members that OVE interviewed stated that the EXD does not receive sufficient information to be able to fulfill its oversight responsibilities in relation to the performance of the Bank and its impact in the region. A feature of the principal-agent problem is that it is common for boards (including the IDB's) to face an information asymmetry with management personnel, who are embedded in day-to-day operations, and for boards to feel that management may not always be providing a full picture. The IDB does not have mechanisms to overcome these information asymmetries, which increase the challenges in overseeing the performance of Senior Management. Furthermore, from Management's perspective, there are gaps in the performance of roles and responsibilities such as strategic and technical orientation from the Board to Management, strategy implementation, determination of risk appetite and culture, and monitoring of the efficiency of resources spent across IDB organizational units.

2.8 According to OVE's survey, 34% of the managers and 23% of Board members consider the Board and Management to duplicate some of their roles. For example, Management and some Board members said the Board involves itself too much in day-to-day activities with respect to issues such as project design and non–Senior Management human capital issues, which they view as Management responsibilities. At the same time, Board members noted situations in which Management has overstepped the responsibilities of the BOG and EXD, such as recognition of a country's representatives to the Bank and the creation of new organizational units without consultation with the EXD or request for approval. In addition, the President has traditionally had an informal direct line to Governors to discuss issues that have been delegated by the BOG to the EXD. Pressing Governors to take positions on issues that they have delegated to Executive Directors has resulted in undermining Directors' authority, while also providing mixed signals to Senior Management on some countries' positions. Further, there are activities that pertain to Management or the Board, where the lack of clarity and understanding of their respective roles and responsibilities leads to tension between the two bodies, whereby one body thinks the other is overstepping its defined roles—for example, in their respective roles in country strategies and sector framework documents, which are developed by Management and presented to the EXD for approval and information, respectively. Nevertheless, the EXD has expressed that its comments on the proposals should be taken into consideration, while Management states that the content of these documents is its sole responsibility (see paragraph 2.11 for further discussion).

2.9 The powers of the IDB's governing bodies are similar to those of other IFIs, which are also defined in a very general way, but they differ from some with respect to which body selects the head of the institution. A key difference in the governing bodies' powers is that a few other IFIs (the WB, the IMF, and the Development Bank of Latin America, or CAF) leave the selection of the chief executive (i.e., the president or, in the case of the IMF, the managing director) to the board of directors, as opposed to the board of governors. Nevertheless, the governors also play a leading role in the selection of the heads of these institutions. More specifically, at the WB and the IMF, given their respective countries' large shareholdings, the governors for the United States and Europe informally determine the election of the heads of these two institutions. Conversely, at the IDB, the election of the President requires the participation of most member countries, since the voting rules require election of the President by a majority of voting shares and regional countries, as well as participation of a sufficient number of member countries to reach a voting share of 75%, necessitating the participation of the United States. Nevertheless, the lack of a clear delineation of roles and responsibilities between the EXD and Senior Management, combined with a President who reports directly to the BOG, which meets infrequently, allows the President to consolidate a significant amount of power, making it challenging to hold him or her accountable. The situation is exacerbated by a lack of clarity regarding how the Bank's Code of Ethics and Professional Conduct and the Code of Conduct of the Board of Executive Directors apply to the President. This view was supported by managers and Executive Directors that OVE interviewed, who described the IDB as a "presidential institution."

B. Roles of the Governing Bodies in Setting Strategies

2.10 Generally, IDB Senior Management leads the development of strategies, with the EXD and BOG playing a reactive role, except in relation to a few higher-level strategies. Standard practice in corporations is for management to develop and implement strategies, with shareholders providing management with guidance in shaping the strategies, and the board ensuring that management follows through on the agreed-upon commitments. At the IDB, in general, for most types of strategies and other proposals that the EXD must approve, Senior Management develops the strategies and proposes them to the Board for approval, as per the functions listed in the Bank's organizational structure and good practice in corporate governance. However, the IDB's governance documents do not sufficiently describe the EXD's role in guiding the Bank's strategies, nor is it clear, in practice, whether the Board's views are even considered in the process of developing strategies and whether the Board should have a role in shaping lower-level strategies. Generally, country strategies, sector framework documents, and lending operations are already fully developed when presented to the EXD, and therefore the EXD has little ability to influence their content or design. In fact, sector framework documents are presented to the EXD for information only and therefore the EXD does not play a role in strategy setting at the sector level, as it once did with the approval of sector policies.[11] While these documents may be considered technical in nature and reflect more detailed, day-to-day activities that, according to good practice, should be the responsibility of Management, the EXD should provide guidance for their development. In some higher-level, cross-sectoral and corporate strategic and policy issues, such as environmental and social safeguards and procurement policies, as well as the Corporate Results Framework, Management and the EXD do engage in several rounds of discussion of the draft documents before Management finalizes the corresponding strategy and policy documents. Furthermore, the BOG and EXD play an even larger role in guiding the development of the strategies that accompany capital increases and the institutional strategy, which Management then implements. Hence, in practice, the EXD, and in some instances the BOG, plays a greater role in setting higher-level strategies and policies than in setting country- and sector-specific strategies and policies.

2.11 OVE found that in part due to a lack of a clearly delineated, cohesive, and commonly understood set of roles and responsibilities, there exists tension between the EXD and Senior Management with respect to their roles in setting strategies, potentially allowing Management to influence the policies in a manner that is not fully aligned with the interests of the EXD. OVE notes that, while the Bank's official documents describing its basic organization direct that the President play the primary role in developing strategies for the EXD's approval, the standing committees are expected to provide a space for the EXD to discuss and influence strategies that

11 In 2012, the Board approved a process (document GN-2670-1) to gradually eliminate 26 sector policies, which had required Board approval, and replace them with sector framework documents, which would not require Board approval. The proposal maintained six cross-sectoral policies: (1) Environmental and Safeguards Compliance Policy (OP-703); (2) Disaster Risk Management Policy (OP-704); (3) Involuntary Resettlement (OP-710); (4) Operational Policy on Gender Equality in Development (OP-761); (5) Indigenous Peoples Policy (OP-765); and (6) Public Utilities Policy (OP-708, updating of which has been proposed). These policies, with the exception of the Public Utilities Policy, formed the core of the IDB's environmental and social safeguards. In 2020, the new Environmental and Social Policy Framework went into effect, superseding the environmental and social risk and impact management sections of the five policies OP-703, OP-704, OP-710, OP-761, and OP-765.

are being developed by Senior Management. For instance, the terms of reference for the Programming Committee state that the committee has the responsibility to provide direction on country papers (i.e., strategies) (IDB 2019, Annex VI, paragraph 2). Nevertheless, many Board members noted, as mentioned above, that they generally approve Management's proposals, for instance country strategies and lending operations, without much ability to influence them, since these are presented to the EXD for approval after Management has already negotiated them with the respective country. Members also indicated that the EXD should play a role in providing guidance for these strategies and loans before they are finalized, as it does with the cross-sectoral strategies. This perspective differs from that of Management, which views the development of country strategies and operations as its responsibility and participation of the EXD in this phase as micromanagement.[12] The tension between the EXD and Management could be reduced by clarifying what "providing direction on country papers" means and how that direction might allow the EXD to provide guidance on operations.

2.12 The EXD was created as an executive board and therefore has focused more on the executive activity of approving Management proposals, although the number of Directors has grown over time, making it less suited to be an effective executive board. Since the IDB's founding, policies, loans, and other operations have been developed by Management and then presented to the EXD for approval. Furthermore, as noted above, the Agreement states that "The Board of Executive Directors shall be responsible for the conduct of the operations of the Bank, and for this purpose may exercise all the powers delegated to it by the Board of Governors" (Article VIII, Section 3 (a)). Although the definition of "conduct" may be interpreted in different ways, the Regulations of the Board of Executive Directors define the powers that the BOG may delegate to the EXD, which include considering and deciding on all operations of the Bank (IDB 2020, Part II, Section 2 (b)). The only other responsibility explicitly defined in the Agreement is that "The Board of Executive Directors shall determine the basic organization of the Bank, including the number and general responsibilities of the chief administrative and professional positions of the staff, and shall approve the budget of the Bank" (IDB 1959/1996, Article VIII, Section 3 (i)). As a result, the EXD historically has been rather involved in approving Management's proposals and in performing other executive activities such as those related to human resources and budgeting.[13] Nevertheless, according

12 OVE notes that the proposals Management presents to the EXD go through an internal review process in a series of committees, of which the final review is conducted by the Operations Policy Committee, which is chaired by the EVP.

13 For example, the Board approves the staff's salary structure and previously approved a head count limit for the staff.

to the literature on corporate boards, smaller executive boards are more effective for handling day-to-day operations. Specifically, an executive board whose purpose is primarily executive should not include more than 10 members, with 12 at the absolute maximum. On the other hand, supervisory boards, which focus on longer-term strategic issues and oversight, and not on day-to-day operations, can be effective with more members.

C. Formal and Informal Interactions

2.13 OVE found that in general, the Bank's formal and informal interactions have allowed the EXD and Senior Management to conduct its work. Board members stated that formal venues such as the standing committee meetings were effective in allowing the Executive Directors to have deep discussions on matters that they must eventually approve in the meeting of the EXD. In fact, the standing committees began meeting for the first time in 1991 for this exact purpose (see Box 2.1). OVE also found that the EXD and Management have ample opportunities to meet informally among themselves and with each other, which enhances their ability to engage and reach consensus on the matters for which they are responsible. These informal interactions include bilateral meetings between Management and individual Board members, informal Board meetings, briefings, working groups, exchanges during missions to countries, and EXD lunches. According to interviews and surveys, Board members expressed satisfaction with the mix of formal and informal interactions and noted that this mix facilitates decision making.

Box 2.1. Evolution of the standing committees

The standing committees of the EXD were created to provide space for detailed discussions of items before being sent to the full Board for its consideration. Prior to 1991, the IDB's EXD formally met only in meetings of the full Board through the COW/EXD. However, beginning in 1991, the EXD established two standing committees, one for budget discussions, which had been taking up much time at the meetings of the COW/EXD, and another related to financial policies. Based on the perceived usefulness of these committees, the EXD created additional standing committees in 1994, 1996, 1998, and 2002. Today there are five standing committees: Audit, Budget and Financial Policies, OHRA, Policy and Evaluation, and Programming. The EXD also has a Steering Committee, created in 1997, to coordinate and follow up on the work program of the standing committees, as well as to follow up on concerns and initiatives put forward by Executive Directors on various issues; it also approves the budget and travel of the EXD.

The original proposal for the standing committees was that each would consist of six members, as a way of establishing a division of labor within the EXD. However, the allocation of chairs to different committees was contentious, particularly in relation to the one considering the budget, in which most of the chairs were interested. Therefore, the regulations defined that all chairs could participate in any committee if interested. As a result, the objective of having a division of labor within the EXD was not attained, with all chairs participating in all committees, an arrangement that also allowed for the participation of counselors. The decision of which country would represent a constituency in each committee, was taken within the chairs.

2.14 Despite facilitating their work, Board members and managers thought that the Board and standing committee meetings could improve in some areas, such as agenda setting to focus discussions primarily on the most important strategic and oversight issues, and better preparation of the committee chairs. Most Directors noted that the President plays a strong role by overseeing SEC and acting as the chair of the EXD, thus exercising an element of indirect control over the EXD's agenda. Board members and Senior Managers that OVE interviewed provided suggestions on how to improve the Board and standing committee meetings to make them more effective and efficient. Many stated that meetings of the COW should focus more on strategic and oversight issues, areas in which the COW could add more value to the EXD than in operations. They also considered that the meetings could be more efficient if Directors did not recite statements but instead engaged in real discussion, noting that the standing committee meetings had better-quality discussions. Some indicated that the standing committee meetings could be better spaced out during the year, allowing Board members more time to prepare for the meetings.[14] Finally, some Board members suggested that using new digital platforms, which facilitated virtual meetings during the pandemic (see Box 2.2), and improving existing ones to facilitate information sharing would enhance the Board's capacity to operate effectively. For example, improving the Board Platform[15] would allow chairs to submit questions to staff prior to committee or full Board consideration of their documents, so that responses could be provided prior to the meetings (and visible to all Board members), saving time and perhaps allowing approval of the documents by absence of objection or by electronic voting. This would permit meetings to better focus on key issues as opposed to making general statements (especially for loans). Some managers also noted that an effective platform that coordinates and manages EXD requests would make Management's and staff's allocation of time more efficient. OVE notes that SEC is currently piloting different ways to improve the efficiency of the meetings of the standing committees and the COW, such as allowing chairs to voluntarily submit written statements prior to meetings, as well as updating the SEC portal.

14 Based on analysis of SEC data, the distribution of standing committee meetings throughout the year is uneven, potentially affecting the quality of meetings during busier months. For example, between 2011 and 2018, there were, on average, 39 meetings in November and 30 in September, with only 9 in January and 11 in August.

15 The Board Platform is a portal on SEC's internal website. It was created to make meetings and the Board's work more efficient. However, it has not been used much, and Board members and managers agreed that it is not useful and needs to be improved. The original proposal for the Board Platform planned for it to be evaluated. However, OVE has not found any evidence that it has been evaluated.

Box 2.2. Adapting governance arrangements during the COVID 19 pandemic

With the onset of the Covid pandemic, the EXD, with the support of the SEC, developed new regulations to allow for electronic meetings and voting (documents GN-2996-2 and GN-2996-3). The Regulations for the Board of Executive Directors (document DR-398-19) states that the Board will meet in person at the Bank's headquarters or at another location agreed upon in advance.* The new regulations for electronic meetings allow the Board and its standing committees to meet virtually when it is not possible to meet in person during a period of closure of the Bank or for another exceptional reason that would make it impracticable to meet in person. The new regulations for electronic voting allow for the EXD to vote electronically either in conjunction with an electronic meeting or not. As a result of the new regulations and the ability of SEC to implement the necessary information technology, the EXD was able to continue holding Board and standing committee meetings during the telework period resulting from the pandemic.** The number of Board and standing committee meetings in 2020 was 144, somewhat fewer than in prior years (170 and 162 in 2019 and 2018, respectively), although the number of Board meetings (62) was in the same range as previous years.

Source: Annex IV.

Notes: * Paragraph 3.1 of the Regulations states that "The Board shall meet in person at the principal office of the Bank unless it decides in advance and for special reasons that a meeting shall be held in person elsewhere." ** The Board also approved several resolutions to streamline project approvals and procurement related to addressing the urgent needs resulting from the pandemic.

2.15 Board members and Management that OVE interviewed cited several factors that affect the governing bodies' ability to effectively perform their functions. Many Board members noted that they lacked relevant information to make some decisions, sometimes receiving too little information and other times receiving too much, which makes it challenging to monitor Management's performance in implementing the Bank's strategies. This information asymmetry can be exacerbated by having the Secretary, who manages the flow of documentation and information between Management and the EXD, report to the President. Many Directors also noted that the frequent turnover of members of the Board negatively affects its ability to operate effectively and to hold Senior Management accountable for its commitments and actions. Although Executive Directors are appointed or elected for terms of three years and may be reappointed, the average tenure of the Board members over the past five years has been less than two years (20 months for Executive Directors, 18 months for Alternate Directors, and 22 months for counselors), which is the lowest average tenure of Board members out of all IFIs (AfDB 2018). The turnover leads to a loss of institutional memory, and new members can take time to come up to speed on the topics being discussed by the Board. For example, with respect to oversight, a Director may request that Management follow up on the implementation of a loan or strategy a year or two later, but when that Director leaves, the new Director may not know to follow up on this request. Thus, it is difficult in some cases for the EXD to take a long-term view on issues, thereby allowing Management, which has a lower rate of turnover, to be in a better position to influence the direction of the Bank.[16]

2.16 OVE found that there are incentives and structural issues that could make some members of the Board more likely to take a Management perspective on issues instead of a Board perspective, weakening the EXD's ability to operate effectively. Some Directors and counselors come to the EXD directly after serving as Bank staff, which leads to a perception by some other Directors that they have Management's interests in mind over the EXD's. Over the past 10 years, 12 IDB Group staff members have joined the EXD. Some Board members that OVE interviewed also stated that they have been pressured by Senior Management to support Management policy proposals, with Senior Management going so far as to ask their Governors to remove those who do not. Also, a significant number of Board members have returned to the Bank for a staff position after their one-year cooling-off period.[17] According to Human Resources Department data, over the past 10 years, 17 former Board members have joined the IDB Group staff (9 through competitive processes and 8 through noncompetitive processes), with an average of 36 months between the date they separated from the EXD and the date they joined the IDB Group staff. Some Directors noted the desire of Board members to become staff as influencing their behavior while at the EXD to curry favor with Management.

2.17 Managers that OVE interviewed and surveyed noted several factors affecting their ability to operate effectively and efficiently. For example, some stated that the outcome of committee meetings did not always provide clear guidance on what the EXD directed them to do. Specifically, 68% of managers from VPC and VPS who responded to OVE's survey indicated that Board committee chair reports do not provide clear direction. Also, some noted in interviews that the lack of a centralized platform, and the inadequacy of the current Board Platform, to receive and manage requests from Board members resulted in their responding multiple times to similar requests from different chairs, leading to an inefficient use of their staff's time. They also cited the number of topics that are repeated in technical briefings, informal meetings, and formal committee meetings, which generally increases the amount of time staff

16 This situation illustrates another aspect of the principal-agent problem and the information asymmetry between the Board and Management.

17 The WB, IMF, and Asian Development Bank have a one-year cooling-off period for executive directors and alternate directors; however, they do not have a cooling-off period for advisors (the equivalent of IDB counselors)—meaning that advisors can move immediately from the Board to a staff position. The African Development Bank's cooling-off period is more stringent, at two years, and applies to directors, alternates, and advisors.

and managers spend preparing presentations as well as the number of bilateral meetings they have with Board members on a single topic. They suggested that the number of meetings be reduced and the agendas focused on important strategic and oversight issues, on which participants could provide clearer guidance for Management, as opposed to discussing loans and micro-level topics that Management considers to fall under its own responsibilities. Almost half of the survey respondents from VPC and VPS replied that the EXD is ineffective or mostly ineffective in developing strategy. Furthermore, survey respondents from VPC, VPS, and VPF replied that the demand on their time resulting from interactions with the EXD is greater that the guidance they receive from these interactions.

2.18 Finally, the Annual Meeting is not perceived as effective in facilitating the BOG's discussion and development of strategic objectives. While some authorities OVE interviewed stated that the Annual Meeting is a good opportunity to express their countries' views to the President and Senior Management, most stated that the Annual Meeting lacks deep interaction and dialogue on high-level strategic issues. They noted that Governors just read their formal statements, although recently fewer Governors read statements while most submit their statements for the record. In addition, when Management does not send the documents on the agenda with sufficient time for Governors to review, the space for deep reflections on strategic issues is much reduced. Authorities also stated that the recent virtual Annual Meeting did not facilitate bilateral meetings between Governors, which had been an important part of previous, in-person Annual Meetings.

D. Selection and Appointment Processes for Members of the Governing Bodies

2.19 The IDB's appointment processes for the BOG and EXD are similar to those of other IFIs and reflect the fact that its shareholders are governments. The position of Governor is usually filled by the minister of the ministry in charge of the country's relationship with the IDB (sometimes it is the central bank governor), and the Governors or heads of state usually select their representatives at the EXD (Executive Directors, Alternate Directors, and counselors). Therefore, OVE found that the selection of the individuals in the latter positions is exogenous to the Bank and independent of each other, and that their skills and experiences vary depending on what the Governors prioritize for the individuals they select. The only criterion for Executive Directors listed in the Agreement is that they "shall be persons of recognized competence and wide experience in economic and financial matters but who shall not be Governors" (IDB 1959/1996, Article VII, Section 3(b)(i)). This process differs from good practice in corporate governance (which implies competitive processes using selection criteria based on specific skills needed at the Board); however, since IFIs are owned by governments, the selection process for Governors and Executive Directors reflects the importance of these bodies in exercising some form of control and oversight. Nevertheless, the Executive Directors have a fiduciary role, and therefore, as a group, need to be equipped with the skills to effectively discharge their functions.

2.20 OVE found that the EXD, as a group, has the adequate skills and knowledge in some of the areas that are needed to effectively discharge its functions but has gaps in others. A review of anonymous CVs of individuals who have been members of the EXD in recent years found that, as a group, it had relatively few skills and little experience in areas such as risk management/ audit (10% of individuals had skills and experience), legal and regulatory (21%), development effectiveness (13%), and talent management (9%), while having relatively high levels of skills and experience in areas such as stakeholder engagement (91%), negotiation, diplomacy, and collaboration (90%), public policy (86%), and economic development (82%).[18] These findings are consistent not only with the way individual Board members are selected, but with survey results showing that while Board members replied that, as a group, they have sufficient skills in public policy and development issues, they do not have sufficient skills in risk management and legal issues. These skills are needed to perform their roles in some of the standing committees. [19]In addition, while OVE and AUG can provide the EXD with independent support on development effectiveness and audit matters, respectively, the EXD does not have an independent legal counsel to help it navigate complex legal and regulatory issues and must also make decisions on important personnel issues related to the IDB's staff without an independent advisor. There is at least one precedent in the terms of reference for the Audit Committee to allow a standing committee to engage an expert to assist in the execution of its functions. With respect

18 This review utilized a sample of anonymized Executive Director, Alternate Director, and counselor CVs from the years 2016, 2018, and 2020, and compared the skills and experience of this group with the skills identified as most relevant to fulfilling their positions' roles and responsibilities based on IDB governance documents and documentation of the Board's activities.

19 For example, risk management and audit are directly related to their roles in the Audit and Budget Committee and the Financial Policies Committee, talent management and human resources are related to the Organization Human Resources and Board Affairs Committee, while development effectiveness and evaluation are related to the Programming Committee and the Policy and Evaluation Committee.

to reviewing the Bank's project portfolio, the EXD had relatively little experience related to project portfolio management (31% of individuals) and in key sector themes such as gender and climate change (23%).

2.21 The selection and appointment process of the Senior Management team also reflects the decisions of governments. As noted above, the President is elected by the BOG, and the VPs are appointed by the EXD on the formal recommendation of the President. However, the process differs from those described in the literature on good practices in corporate governance, since it does not involve an open and merit-based competition.[20] While the Executive Directors OVE interviewed recognized that the election of the President is a political decision made by Governors, some noted that the process could be enhanced by including a set of criteria to assess the qualifications of candidates. In fact, the functions of Senior Management positions, defined by the Bank's governance documents, could be used to develop such criteria for the selection of the President, as well as the VPs. The selection process also differs from good practice in that there is no indication about the EXD's responsibility to develop a succession plan for the President and other key positions, which is important at the IDB since historically the election of a new President has been accompanied by a 100% turnover of the Senior Management team.

2.22 In general, in recent years the IDB's Senior Management had an adequate set of skills to perform its roles and responsibilities. A review of anonymous CVs of the Senior Management team found that as a group they had an adequate set of the skills and knowledge identified in IDB governance documents and in good practice.[21] In a few areas, such as legal and risk management, relatively few members of the Senior Management team had skills and knowledge (less than one-third). However, given that the General Counsel and Chief Risk Officer report directly to Senior Management, the latter's relative lack of skills and knowledge in these areas does not hinder their ability to perform their roles and responsibilities.

2.23 OVE found that in recent years a significant percentage of nonexecutive managerial positions (those below the level of VP) were filled through noncompetitive processes, raising the concern that these selections were the result of Senior Management's (i.e., the President's) discretion even though the IDB had made a commitment to make these staffing processes

20 The Asian Infrastructure Investment Bank, whose governance structure is consistent with that of other IFIs, explicitly requires the selection process for senior managers to be open and merit-based.

21 This review utilized anonymized CVs of seven executives who were members of the Senior Management team from 2016 to 2020 and had left their respective roles.

transparent. Consistent with OVE's findings in its evaluation of the Bank's corporate restructuring, approved in 2006 and known as the Realignment (IDB 2014),[22] according to data from the IDB's Human Resources Department, between 2014 and 2020, 42% of individuals selected as country representative or manager were hired under a noncompetitive process.[23] This differs from the division chief position, where only 2 of 18 individuals were not hired through a competitive process. OVE also did not find evidence that the country representative and manager vacancy announcements were posted in the IDB's daily InfoLinks or job opportunities page as were the division chief positions that were hired competitively. While OVE previously found that the selections for managers and country representatives described above were in line with formal Human Resources Department rules, they were not consistent with the goals and spirit of the Realignment, which called for clearly defining the criteria for selection of staff, including Management, and establishing a transparent recruitment process for new Management positions. Noncompetitive selection also is not consistent with good practice, whereby an MDB should establish and follow a rigorous and transparent internationally competitive recruitment process that reflects the MDB's core values (Delikanli, Dimitrov, and Agolli, 2018).

2.24 Managers and Board members expressed concern about the lack of competitive processes for the selection of nonexecutive managers. Half the managers surveyed and interviewed by OVE expressed that, in their view, the selection process for country representatives and country and sector managers was neither competitive nor merit-based in most cases, implying that the selections were made solely at the President's discretion. Some Directors interviewed by OVE also shared this perception, while some also noted that Board members have been rewarded with staff positions after their one-year cooling-off period, based on their support of the President's positions on important issues. Transparent and competitive staffing processes help an organization to select the best candidate for the position and are also a way to incentivize and motivate staff. Conversely, not following these processes can hurt staff morale and create perverse incentives, negatively affecting performance and organizational culture.

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22 The 2014 OVE evaluation found that in the years following the Realignment, competitive processes were used to fill 85% of division chief, 32% of country representative, and 18% of manager positions.

23 The data provided by the Human Resources Department do not include lateral moves but only the selection of someone external to the Bank or within the Bank but in another grade to the position of manager or country representative. For example, they do not include processes whereby a representative in one country is selected (competitively or not) to be a representative in another country.

E. Training

2.25 Consistent with good practice in corporate governance, the skills of the EXD are supported through an induction program and a knowledge and learning plan. Started in 2015, the IDB's annual induction program (Workshop for New Board Members) is a three-day event spread across a three-week period. These workshops, organized by SEC, have typically been held in September and October, and the daily agendas include half-day sessions. The sessions cover many topics and over the years have consistently dedicated time to topics such as the budgeting process, financial concepts, country strategies, and an overview of MICI and OVE. Most trainings in the EXD's knowledge and learning program, organized by the Knowledge, Innovation and Communication Sector (KIC), have been face-to-face events focused on language training, sector and economic issues, operational topics, core competencies, and corporate affairs. It is unclear which trainings are now available online, which is especially important in light of the remote working requirement necessitated by the pandemic. Nevertheless, the Report of the Working Group on the Knowledge and Learning Plan for the Board (DR-776-10) noted that Board members had access to over 150 webinars on different topics produced by different IDB units for internal and external audiences during the teleworking period.

2.26 Despite having an annual induction program, OVE found that it was not always held in a timely manner based on the arrival of new Board members. While OVE determined that the material of the induction program was relevant for understanding general EXD activities, many Directors expressed the desire for the program to be available more frequently so that they could participate soon upon their arrival. The Directors further noted the importance of a timely induction program given their frequent turnover. Board members that OVE interviewed stated that the lack of timeliness of the induction program resulted in some Directors performing their roles and responsibilities for many months without relevant training. This has been more evident for Board members who arrived during the pandemic and have yet to participate in an induction program. Some suggested that using digital technology would allow these courses to be delivered on demand, including upon arrival.

2.27 OVE found that the topics covered in the EXD's induction program have changed from year to year, potentially leaving out relevant material. Based on a review of the five previous induction programs, the agendas change every year. However, it was not clear why the topics covered in the program changed. Also, the induction programs have not been adequately evaluated, since few participants respond to end-of-program surveys, even though such surveys are good practice for ongoing improvement of induction processes. According to its agenda, the most recent induction program (2019) did not appear to cover the EXD's roles and responsibilities, in contrast to the agendas of the four previous years (2015–2018), which included overviews of the Agreement and the IDB's governance, as well as (in 2015) a presentation specifically on the EXD's roles and responsibilities. Given OVE's findings, stated above, that the EXD's roles and responsibilities are not commonly understood, the inclusion in the induction program of an overview of these roles and responsibilities is important.

2.28 The induction programs have consistently covered topics directly related to the EXD's fiduciary roles, and progressively included new ones as needed. From 2015 to 2019, the induction program has consistently covered topics such as the budget process, financial concepts, country strategies, and an overview of MICI and OVE. There has been a significant increase in time spent on risk management. This increased priority is aligned with the findings of the Report of the Working Group on the Knowledge and Learning Plan, which found that the budget for training should cover professional skills related to the work of the Bank, including risk management. However, there is no evidence as to whether the content of the induction and other EXD training programs is sufficiently informed by the specific skills Executive Directors need to perform their role.

2.29 OVE found that because the content of the knowledge and learning plan is not based, at least in part, on specific skills needed by the EXD and related skills gaps, the current trainings do not fully align with supporting the EXD in performing its roles and responsibilities. The EXD has a formal process for planning its training throughout the year based on Board members' interests. The chair of the Organization, Human Resources, and Board Matters (OHRA) Committee proposes activities to the Steering Committee for approval based on discussion in the OHRA Committee, a request for topics from other committee chairs, bilateral meetings, and a survey to each chair to rank topics. Nevertheless, the training plan does not consider the range of skills gaps of the EXD to perform its roles and responsibilities. As a result, language training represented 80% of training hours in 2019, with 7.9% of training hours focused on sector and economic issues. The remaining 12.1% of training hours focused on issues more closely related to the EXD's fiduciary role: operational topics, core competencies, and corporate affairs.

2.30 Despite having the opportunity to influence the knowledge and learning plan through the process detailed above, some Board members stated that the trainings do not adequately address the skills relevant to perform their fiduciary role. For example, several Board members that OVE interviewed stated that they would like the knowledge and learning plan to better prepare Directors to chair the Board committees. Furthermore, the Report of the Working Group noted that there are limited trainings listed in the current knowledge and learning plan on risk management, financial instruments, and legal competencies. Given the results of OVE's survey of the EXD's self-evaluation of skills and the Report of the Working Group's findings on areas to focus on, OVE found that there is not sufficient training in these areas available on demand. Absent a requirement for Board members to serve their entire three-year terms, their high rate of turnover increases the importance of a timely and relevant induction program and courses in the knowledge and learning plan. Alternatively, Board members could be required to arrive with more relevant experience, or the EXD could hire independent experts to advise them on their fiduciary role.

2.31 There is not enough information available to determine the effectiveness of the induction program and the knowledge and learning plan. Based on the information in the Report of the Working Group and IDB workshop documents, OVE found that currently there are no mechanisms in place to track the effectiveness or results of the induction program. KIC currently assesses the learning gain for trainings that are over four hours or trainings that are repeated several times. However, the response rate of Board members to such assessments is relatively low.

2.32 With respect to onboarding of Senior Management and other executives, the IDB has a VIP welcome kit for executives that is based on a recommended onboarding agenda prepared by KIC and the Human Resources Department. The welcome kit covers 11 topics with materials to support those topics. The supporting resources primarily include online courses, overview documents, and Intranet links for the respective topics. The welcome kit covers the IDB Group and institutional strategy, interaction with borrowing member countries, sovereign-guaranteed loans, IDB's financial instruments, human resources management at the IDB, IDB Invest and IDB Lab, OVE, and ethics and conduct. However, it does not cover material that was part of the EXD's induction program agendas, such as the focus on risk concepts or budgeting processes. The welcome kit states that KIC and the Human Resources Department may help in coordinating relevant one-on-one meetings during the executive's first weeks at the IDB.

2.33 Although the topics included in Senior Management's onboarding are relevant, OVE cannot determine its effectiveness. OVE found that the structure of the agenda covers essential topics to introduce the IDB's leading practices, such as its organizational structure; an overview of its processes (e.g., sovereign-guaranteed loans); and its values, ethics, and culture. The ability to access online courses and Intranet links is also in line with good practice for delivering training. The availability of online resources should allow for Senior Management to attend onboarding trainings immediately upon starting their roles. Nevertheless, there is currently not a documented mechanism in place to track the effectiveness and results of the onboarding program for Senior Management and it is also unclear whether Senior Managers complete the courses. Additionally, it is unclear from the onboarding material whether the recommended one-on-one meetings between the Senior Managers and nonexecutive managers are being arranged and who is responsible for refreshing and reinforcing Senior Management's training.

F. Specialized Offices

2.34 There are several offices that serve the Bank while also providing support to the EXD in performing its responsibilities with varying degrees of independence from Management. The roles and responsibilities of these offices are similar to those of other IFIs.[24] Offices that provide support for oversight report either directly to the EXD (the Independent Consultation and Investigative Mechanism, or MICI, and OVE) or report to Management with a reporting line to the EXD through the Audit Committee (the Office of the Executive Auditor, or AUG, and the Office of Institutional Integrity). Other offices that provide various services for the EXD and Management report directly to Management (the Legal Department, or LEG; the Ethics Office; the Office of Risk Management; and SEC). The reporting lines for these specialized offices are generally consistent with good practice in corporate and IFI governance, except for SEC, since according to good practice in corporate governance, the corporate secretary should report primarily to and be held accountable by the Board. While the EXD may request the removal of the Secretary, who manages SEC, when it considers it to be necessary, the Secretary is designated by and reports directly to the President.

24 See Annex I for a brief description of these offices and Annex III for a detailed comparative analysis of these offices with respect to both good practice and the practices of other IFIs.

2.35 Many Board members indicated that SEC and LEG did not provide them sufficiently independent support, because of their reporting lines to Senior Management. The majority of Board members OVE interviewed stated that while SEC provides good support for preparing and running Board and committee meetings, the fact that the Secretary of the Bank (who leads SEC) reports to the President leads to the perception that SEC prioritizes Management's agenda over the EXD's. The Secretary's reporting line also leads to the perception that SEC can control the information that the EXD receives based on the influence of Management, exacerbating information asymmetries between the EXD and Management. The Board members also expressed that, because the General Counsel, who manages LEG, reports directly to the VPF, its ability to provide the EXD with an independent legal opinion can be compromised. This situation has created challenges in politically sensitive situations in which the EXD has sought independent legal opinion. Nevertheless, the reporting line for LEG is consistent with good practice in corporate governance and that of other IFIs. Board members had also expressed concern about the independence of AUG. As a result, during the evaluation period, the EXD updated the AUG Charter, which clarifies and strengthens the Audit Committee's role with respect to the Executive Auditor, providing it more, but not complete, independence from the President, and putting it more in line with good practice. For example, according to the new Charter, the Audit Committee participates in the recruitment, renewal, and removal process of the Executive Auditor, as well as in his/her annual performance review (IDB 2021, DR-569-19, Section 2).

G. Time Allocation

2.36 OVE found that the EXD does not spend its time in meetings of the COW/EXD in a way that is consistent with its priorities (strategy setting and oversight). Most Board members reported that they spend more time than necessary on approving projects and that they should allocate more time to strategy setting and oversight, which, according to OVE's survey and interviews, they consider higher priorities. Managers that OVE interviewed also reported that the COW focuses too much on executive responsibilities. This perspective is supported by analysis that OVE conducted on data provided by SEC on the time spent discussing agenda items in Board meetings.[25] For example, from 2011 to 2018, 74% of the time in COW/EXD meetings was spent discussing projects, committee

25 OVE categorized agenda items into four main categories: executive (i.e., project and budget approvals and human resources matters), strategy, oversight, and informational presentations. It then assigned these categories to all agenda items in COW/EXD and standing committee meetings conducted between 2011 and 2018 and compared the amount of time spent discussing each category in the various committees.

chair reports, and minutes presented for EXD approval. This result is not surprising, since the standing committees were created to discuss most items the EXD must consider in more detail before sending them to the full Board for its consideration. Projects are not assigned to any standing committee for discussion and therefore are the primary item considered in the COW/EXD meetings.

2.37 The time spent in the COW/EXD meetings discussing and approving committee chair reports is redundant. According to their terms of reference, the standing committees are not granted decision-making powers and therefore must send any item to the COW (in the form of a chair report) for any necessary final discussion and then to the EXD for approval. This is consistent with the original proposal of the standing committees, which envisioned a division of labor whereby six chairs would participate on each committee. However, since the terms of reference allow all chairs to participate on all standing committees, where discussion and consensus reaching occurs, and they do so in practice, the consideration of an item in the COW and a subsequent vote on it in a meeting of the EXD is repetitive.

2.38 The amount of time spent discussing oversight and strategy issues in the Board's standing committees is much greater than that spent on these topics during COW/EXD meetings. For example, during the period 2011–2018, 45% of the time in standing committees was spent discussing oversight items, while discussions of strategy and executive items each accounted for 20% of the time. The remaining 15% of the time was spent on informational presentations. These data show that the EXD's and Management's views on the allocation of time in meetings is representative only of the time spent in meetings of the COW/EXD.

2.39 Although strategy items are considered a priority for the EXD and Management, discussions of these items represent much less time spent in meetings than that devoted to executive and oversight items. In fact, of all the time spent in COW/EXD and standing committee meetings, discussions of strategy items account for only 15%. In contrast, discussions of executive and oversight items account for almost equal percentages of time (35% and 33%, respectively), while discussions of informational presentations and other business/matters accounted for 17% of the time.

H. Costs

2.40 While the EXD's share of the Bank's total administrative expenses has been relatively constant over the past decade, at around 3.6%, Senior Management's share,[26] while averaging 2.7% during that

26 The calculation for Senior Management includes the expenditures of the offices of the President, EVP, VPC, VPS, and VPF.

period, has been steadily increasing and is approaching that of the EXD. During the period 2010–2020, the EXD's average annual executed budget was US$20.76 million. During the same period Senior Management's average executed budget was US$15.8 million. Nevertheless, over the period the EXD's executed budget steadily increased, reaching US$19.5 million in 2019, compared with US$12.9 million in 2010. Senior Management's increase in executed budget was due primarily to increases in the number of staff in the President's and VPC's offices.

2.41 The mandatory telework period for most of 2020 was not associated with reductions of the EXD's executed budget but was associated with a significant cut in Management's executed budget. Even though for most of 2020 the EXD, along with Management and staff, was required to telework and forgo official travel, its executed budget fell by only US$229,000 from its 2019 level. This was due to an increase of US$1.47 million in labor costs, which mostly offset the US$1.7 million decline in nonlabor costs. In contrast, during 2020, Senior Management's executed budget declined by almost US$3 million from that of 2019, led by a US$1.87 million decline in the costs of the Office of the President. All Senior Management offices, except for a marginal increase in the cost of VPS, reduced their executed budgets in 2020.

2.42 Although comparisons with other IFIs are difficult given the different scopes of operations and managerial structures, the IDB is in line with its comparators that have resident boards. As a percentage of the total approved budget envelope for 2020, the IDB Board's budget (3.9%) is higher than that of the Asian Development Bank (2.35%) and WB (1.86%), but much lower than that of the IMF (6.5%) and almost equal to that of the African Development Bank (3.8%).[27] Although comparable data for IFIs with non-resident Boards is not easily accessible, previous studies have shown that the resident Boards have substantially higher costs than non-resident Boards but allow for frequent Board meetings. In comparison, non-resident Boards meet much less frequently, although they can vote on certain decisions without holding a meeting (see, for example, Delikanli, Dimitrov, and Agolli 2018 and Independent Evaluation Office of the IMF 2008). Although it is difficult to compare the budgets of senior management across IFIs, which have different numbers of senior managers, the absolute budget of the IDB's Office of the President is comparable to that of others.

27 Nonresident boards have lower costs since the institution does not pay the directors' salaries. For example, the budget of the board of directors at CAF is less than 0.5% of the total administrative budget.

03

Accountability and Transparency

3.1 The IDB has mechanisms and instruments for the EXD to monitor and evaluate the Bank's activities. For example, the EXD approves and reviews the Corporate Results Framework, which monitors the Bank's performance on key indicators. The EXD also reviews the Development Effectiveness Overview, which presents the results of the Bank's operational portfolio, and counts on the work of independent and accountability offices to conduct evaluations, audits, and investigations of specific Bank activities. Furthermore, the fact that the EXD is a resident board leads to regular interaction with Senior Management to monitor and evaluate the Bank's activities. Finally, the EXD also has the ability to call a Special Executive Session for Ethics Oversight to address ethical and integrity issues, including those related to Senior Management, that could negatively affect the Bank's reputation.

3.2 Nevertheless, the EXD does not appear to effectively use all of these instruments, nor is there a comprehensive framework to hold Senior Management accountable for its commitments, actions, and conduct. Only 14% of managers and 12% of Board members that OVE surveyed indicated that the EXD has adequate mechanisms that are used to evaluate the performance of IDB Senior Management. Some Executive Directors that OVE interviewed indicated that the EXD should be more proactive to hold Senior Management accountable and that Directors should provide inputs to include accountability issues in the agendas of the EXD and of the BOG Annual Meeting. Executive Directors also stated that Senior Management provides the information that the EXD uses to assess Bank activities, but that Senior Management often fears disclosing full information, affecting the EXD's ability to hold Senior Management accountable. Furthermore, there is no formal or informal process for the EXD to assess Senior Management on the latter's overall performance and conduct. Good practice in corporate governance holds that the Board should have a comprehensive system for monitoring, evaluating, and holding members of management accountable for their commitments, actions, and conduct. The EXD considered the creation of such a mechanism a decade ago. Specifically, it included an action in its 2009 Retreat Action Plan to assess Senior Management through an accountability framework, although it suspended this action (document GN-2533-2). The fact that the President is the chair of the EXD further complicates its ability to hold the President accountable. Good practice also indicates that the chief executive's responsibilities and actions must be distinguishable from those of the board so that accountability is not compromised. Specifically, if the President is the chair of the Board, then there is a conflict of interest, since the Board is unable to assess the President's performance without implying a judgment on its own performance. Furthermore, based on a document review and interviews with stakeholders—and despite the inclusion in the President's contract of language on adhering to the principles and values of the Bank's Code of Ethics and Professional Conduct and the Code of Conduct of the Board of Executive Directors—it is not clear whether the two codes apply to the President, which makes it challenging to hold the individual in this position responsible for ethical issues. Based on the same analysis, it is also unclear whether the Code of Ethics and Professional Conduct applies to the VPs.

3.3 Furthermore, country authorities that OVE interviewed concurred that there were not sufficient mechanisms to hold Senior Management accountable. Most authorities OVE interviewed stated that there is no formal mechanism to hold Senior Management accountable for its commitments, actions, and conduct apart from the Annual Meeting, in which Governors are informed about how their strategies are being implemented by Senior Management. Governors also receive and approve an annual report and a statement of the President, but the country authorities noted that these documents are primarily fiduciary and informational, representing a communication rather than an accountability tool. The only mechanism to hold Senior Management accountable that the authorities mentioned is the removal of the President.[28] However, they noted that this action would be extreme and politically costly. Since the President is elected by the BOG, he/she is accountable to that body, as opposed to the EXD, which shifts the balance of power to the President, however, the authorities considered that the role of the EXD in holding Senior Management accountable is key as, being a resident board, their interactions are constant.

3.4 Other IFIs have similar instruments, as described above, to monitor and evaluate their activities; some provide more comprehensive mechanisms to hold their Management accountable. For example, the Asian Infrastructure Investment Bank (AIIB) has a formal accountability framework[29] to provide a comprehensive assessment of Management's performance. Nevertheless, the AIIB

28 According to Article VIII, Section 5, of the Agreement, the Governors are given the power to remove the President from office without having to invoke cause. Specifically, the President "shall cease to hold office when the Board of Governors so decides by a majority of the total voting power of the member countries, including a majority of the total voting power of the regional member countries."

29 The AIIB's accountability framework was established in 2018 by the board of directors to govern the procedures for project approvals and management accountability. Its purpose is to "clearly demarcate the respective roles of the Board of Directors and the President in respect of the financing operations of the Bank" (AIIB, 2018., p. 1). The accountability framework sets out to strengthen (1) the Board's role in establishing AIIB's policies and strategies; (2) the role of the president in conducting the business of the bank, including through the delegation of authority to approve projects to the president; and (3) the role of the board to hold the president accountable for the management of the bank in line with the agreed policies and strategies of the bank. Under this framework, the board of directors has direct accountability to governors

does not have a resident board, and the accountability framework has yet to be assessed.[30] The IMF and WB boards have informal discussions with their managing director or president on her/his performance, although the impact of these discussions on holding management accountable is not known. However, since IFI chief executives are generally not considered staff, it is not always clear whether they fall under their institutions' ethics codes. Some IFis have, nevertheless, clarified this aspect: the president of the Asian Development Bank falls under that institution's board code of conduct, the European Bank for Reconstruction and Development's president and vice presidents fall under its code of conduct for personnel, and the IMF managing director's contract includes a clause on ethical conduct.

3.5 Likewise, OVE did not find evidence that there are instruments within the EXD to hold the Executive Directors accountable aside from the Conduct Committee, which is focused on ethical issues, as opposed to the effectiveness of the EXD in performing its responsibilities. Each individual Executive Director is accountable to his/her respective Governor. Therefore, the accountability of Board members is different for each member and is not conducted as a comprehensive process within the EXD's governance arrangements. Nevertheless, the EXD does have a Conduct Committee, which considers ethical issues that may arise among members of the IDB and IDB Invest EXDs and the IDB Lab Donors Committee. The Conduct Committee consists of six Directors; it meets infrequently and only if there is an ethical issue related to a Director. It also has not been clear whether the President's actions as chair of the EXD fall under the jurisdiction of the Conduct Committee.

3.6 Good practice in corporate governance holds that boards should self-evaluate, which the IDB EXD currently does not do, although most Board members were open to participating in a self-evaluation. The surveys and interviews confirmed these findings, the Board members noted that they have few instruments to hold Executive Directors accountable: mainly the Conduct Committee and the social pressure of Directors letting others know if they are not being constructive partners. Furthermore, most Directors stated that they thought the EXD could do a self-evaluation and that it could be a useful activity as part of their annual retreat. In fact, it had considered creating a self-evaluation in the 2009 Retreat Action Plan, but as in the case for the accountability framework of Senior Management, the EXD also suspended this proposal (document GN-2533-2).

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for the determination of the bank's policies and strategy, which need to be articulated in concrete terms to allow the board to monitor its implementation and outcomes, refining the bank's strategy by considering lessons learned.

30 OVE notes that the AIIB board is designed to be more of a supervisory board than an executive board.

3.7 In an effort to ensure the transparency of its activities, the IDB has mechanisms similar to those of other IFIs. The Bank's Access to Information Policy[31] seeks to maximize access to information while defining certain exceptions. It also seeks to facilitate access to and timely disclosure of information and to provide explanations when denying access. In general terms, the policy is in line with those of other IFIs. However, the IDB does not follow good practice in corporate and MDB governance since it does not publish the remuneration of the EXD. For example, the Asian Development Bank, the European Bank for Reconstruction and Development, and the WB publish the salaries of their executive directors. The IDB also promotes the transparency of its activities through its website and social media. Those without Internet access can also request information through postal mail and telephone. OVE's final evaluation of the implementation of the Bank's ninth general capital increase (IDB 2018, document RE-515-6) found that the Access to Information Policy framework has shortfalls,[32] while according to the 2020 Aid Transparency Index, the IDB falls into the highest category ("Very Good"), ranking 5th out of 47 development agencies but behind AsDB, WB and AfDB (Publish What You Fund 2020).

3.8 OVE surveyed members of civil society organizations (CSOs) who participate in the ConSoCs, and they said the information that the IDB makes available to them, as secondary stakeholders, is adequate. Specifically, 75% of the respondents stated that the information channels are adequate or partly adequate. The survey results indicate that the most common channels available for civil society to access information about IDB projects and activities are the IDB's website, email, social media, and direct contact with the Bank (other channels that were mentioned less often include IDB bulletins and blogs, video meetings, phone calls, and the press). The respondents who did not think the channels were adequate mostly used the website, direct contact, and email. The CSO members provided suggestions to improve access to information about IDB projects and programs, such as having more regular communications with CSOs; providing information that is better tailored to the relevant country or subregion and themes for the respective CSO members; and improving the IDB website to facilitate easier access to project information, execution, and results.

31 The Bank is currently updating its Access to Information Policy while seeking to incorporate new disclosure standards adopted by other IFIs and to make disclosure more proactive and predictable.

32 For example, the indicators of the policy's implementation do not measure the accuracy and the timeliness of the disclosure of Bank information or how well the policy is working to enhance Bank transparency.

04

Voice

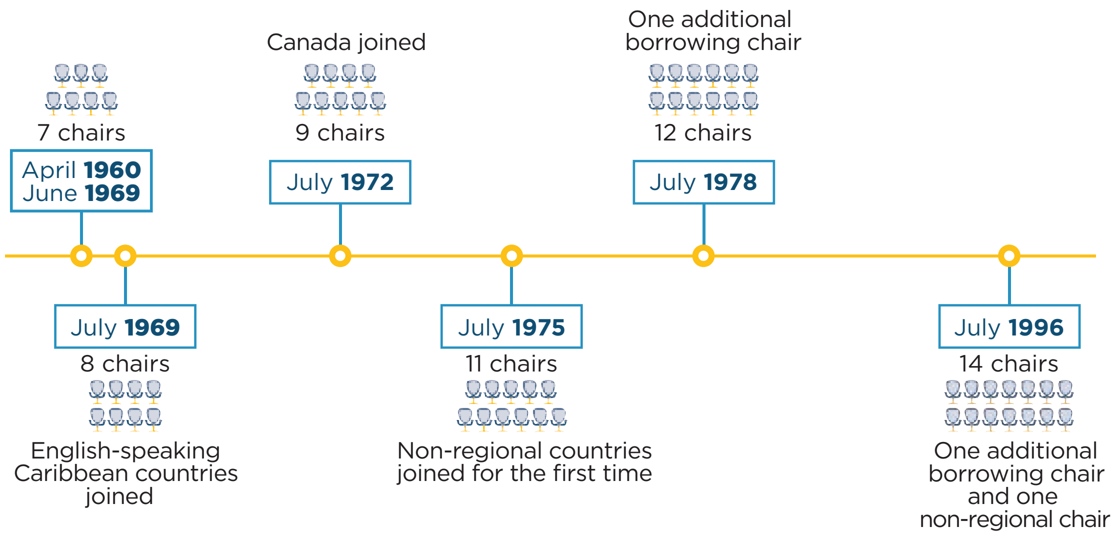
4.1 Voice refers to the ability of shareholders and other affected stakeholders to have their views considered in the institution's decision-making process. Voice is as a key aspect of governance since the legitimacy of board decisions relies on agreements based on deliberation in which all voices are respected and considered. This does not necessarily imply equal voting power, but rather that all directors have an equal right to expression, respect, and attention. For this reason, this evaluation examined whether the IDB constituency structure affects the participation of shareholders, how the composition of constituencies and voting rules affect the dynamics of decision making in the EXD, and the extent to which secondary stakeholders have adequate channels for their views and concerns to be considered.

4.2 The composition of the EXD constituencies was determined over time and, depending on the chair, allows some shareholders more participation in Board and committee meetings than others. Currently there are 14 chairs at the EXD (see Figure 4.1 for the evolution of the number of chairs over time). Two chairs have only one country each (the United States and Canada), which means that they always participate in all meetings. For the rest of the chairs, six comprise two countries, one has three, and the remaining five chairs range between five and seven countries. The countries that are in relatively smaller constituencies can participate more frequently in Board and committee meetings than countries in larger constituencies. Nevertheless, regardless of the size of the shareholder, Board members expressed that they adequately participate in Board and committee meetings.

Figure 4.1

Number of EXD chairs over time

Source: Annex IV, Appendix A.



4.3 Board members from multi-country constituencies interviewed by OVE expressed that it can be challenging to make their voices heard at the EXD, since it is often difficult for members of such a constituency to reach a consensus before the Board meetings. This is especially true for the members that represent non-borrower constituencies, which encompass countries with different contexts and priorities. This can create challenges for countries that disagree with the majority position of their constituency, since chairs cannot split their votes.[33] This arrangement also hampers the possibility of having dynamic discussions in the committees, for instance if the constituency has agreed not to take formal positions on new proposals presented during the discussions before its members reach an internal agreement. Board members from borrowing countries mentioned the disparity and asymmetry within constituencies formed by countries from different regional contexts and with unequal shareholding participation. Interviewees perceived this asymmetry as causing representation issues, since the chair tends to focus on the interests of the largest country within such a constituency.

4.4 The composition of the constituencies and the shareholding of each chair play a role in determining the dynamics of decision making at the EXD, potentially leaving some countries with more or less voting power than their voting shares imply. OVE's analysis of voting power[34] implies that some countries have a higher or lower voting power than their official voting share, while other countries at the EXD could have zero voting power as a result of the makeup of their constituency (see Box 4.1). An argument frequently used against voting power analysis in organizations like the IDB is that many board decisions are, in practice, made by consensus without a formal ballot, so voting weights and formal rules could be considered unimportant. However, consensus does not always reflect genuinely unanimous support by all member countries. Rather, it could indicate an awareness among them that under the voting rules sufficient support for a proposed measure exists to pass it and therefore opponents see little value in forcing a formal vote and/or officially noting their opposition

33 While this is also the case at the WB and the African Development Bank, directors at the Asian Development Bank and the European Bank for Reconstruction and Development can split their constituencies' votes.

34 Note that the a priori voting power analysis is based on a theoretical exercise, taking to account voting rules, that assumes constituencies take a position based on a majority vote and does not take into account any agreements made within constituencies on decision making. Based on the principle that a member country's influence (i.e., its power) depends on the number of voting outcomes it can influence by casting its (weighted) vote, a voting power index is created. The index is a measure based on systematically considering all the possible results from a hypothetical vote. No account is taken of the composition of each outcome in terms of particular voting coalitions; all outcomes are assumed equivalent without regard to the preferences of the voters. The analysis is therefore completely abstract.

to the measure (see Annex VI for the complete voting power analysis document). Although decisions at the EXD generally are made by consensus, voting power may play a role since chairs sometimes do oppose or abstain from items (i.e., loans and the budget), or may postpone an item for consideration when there is no consensus.

Box 4.1. Voting power analysis summary

Voting Power in the BOG

The voting power analysis of the IDB BOG showed that for ordinary decisions made by a simple majority of the weighted votes, the results were similar to those of other voting bodies where, as a result of a single voter in possession of a relatively large number of votes, the voting power distribution becomes more unequal than the distribution of voting shares. The distribution of voting power for such an unequal body is more unequal than the distribution of the weight of voting shares, with the single large voter having more voting power than share weight, and all the others less. The a priori voting power of the United States in this situation is enhanced, compared with its weight: it has 2.64 times the votes of the next countries down the list, Argentina and Brazil, but 5.98 times their voting power. The same effect has been found in previous studies (e.g., of the WB and IMF) (Leech 2002).

The voting power analysis for important decisions that require a qualified voting majority threshold of three-fourths of the weighted votes (such as votes to increase the capital, suspend a member, or amend the rules) indicate that while the voting rules give the largest shareholder, the United States, veto power, this does not mean it has enhanced voting power. In fact, on these matters, the distribution of voting power is much more equal than that of voting weight. The reason is that the high qualified-majority threshold means that it is harder for the United States to get agreement to its proposals, which can be blocked by a coalition of voters with smaller weight.

Voting Power in the EXD

The voting power distribution for the simple majority of weighted votes is similar to that for the BOG, in which voting power is more unequal than voting weight (enhanced voting power for the largest shareholder and less for all the other chairs), while also showing that some countries can have more or less voting power than voting weight, depending on the composition of their constituency. Considering that most member countries participate indirectly in decision making at the EXD through constituencies, and that the votes of all members of a constituency are combined and cast as a block, one can assume that there is an implicit weighted voting rule among group members. In constituencies with only two members, this means that one of them is powerless—at least in a formal sense and ignoring other factors. In addition, assuming majority voting within multicountry constituencies, the voting power analysis reveals that some countries (the Bahamas, Sweden, Switzerland, and Paraguay) have much greater voting power than voting weight in their constituencies, while others (France, Germany, and Italy) have much less voting power than voting weight.

Source: Annex VI.

4.5 The voting dynamics are similar to those of other IFIs; however, the borrowing countries' majority shareholding gives them more power in the IDB than in other global and regional IFIs, except for the African Development Bank and newer IFIs, such as CAF, AIIB, and the New Development Bank. The voting rules codify the agreement made at the Bank's founding to create a balance of power between LAC and the United States. For example, the voting rules allow the borrowing countries to take the lead positions on all decisions at the EXD, with the United States' support required only for BOG decisions, such as increasing the ordinary capital and suspending a member, with its attendance required to provide a quorum for decisions at the BOG. This balance of power has been maintained with the incorporation of non-regional members, while also adding voting thresholds for regional members on some decisions at the BOG to preserve the regional character of the institution (see Annex VI for more details on voting rules).

4.6 While a majority of Board members said they have the ability to place items on their committee meeting agendas, country authorities expressed concern that they have limited ability to place items on the BOG Annual Meeting agenda. According to the Bank's official documentation, Executive Directors and Governors can propose items on the agendas of the Board committee meetings and Annual Meeting, respectively (IDB 1960/2018, 2019, and 2020). The EXD's steering committee also has under its responsibilities to "coordinate the scope, nature, and timing of the handling of items within the various committees" (IDB 2019, Annex I). Over 60% of EXD survey respondents indicated that they could place items on the Board committee agendas or raise issues that are not in the agenda. However, most authorities that OVE interviewed did not feel that they could place an item on the agenda for the Annual Meeting. OVE notes that for the most recent Annual Meeting, Senior Management sent a survey to Executive Directors asking if they had items that they would like to place on the Annual Meeting agenda. However, the Executive Directors and authorities did not feel that the survey influenced the setting of the agenda.

4.7 The BOG and EXD have good access to Senior Management to express their countries' views. Country authorities that OVE interviewed noted that they can communicate with the President or Senior Managers directly, or indirectly through their Executive Director. Furthermore, Senior Management proactively reaches out to authorities to hear their views in various forums, including country visits, phone calls, and meetings with Governors from borrowing country sub-regions and non-regional countries prior to the Annual Meeting. OVE's interviews and surveys with Board members suggest that although Directors representing larger shareholders met relatively more often with Senior Management than Directors representing smaller shareholders, all Directors, regardless of shareholder size, had adequate access to Senior Management to express their countries' views.

4.8 The IDB consults regularly with CSOs and provides different channels to hear the views of CSO members. Specifically, the IDB holds an annual meeting with civil society and organizes ConSoCs in all 26 borrowing countries. Furthermore, the VPC has staff dedicated to civil society outreach. Of the CSO survey respondents,[35] 75% indicated that they have had communications with either the country representative, the government ministries in charge of IDB projects, or the country's Executive Director (half of them initiated the communications and the other half were contacted by the IDB or the government ministries). CSO survey respondents indicated that the main channels to communicate their viewpoints and concerns about the IDB are emails, calls (including video calls), and ConSoC meetings. Still, one-third of respondents indicated that they have not used any communication channels to voice concerns in the past or that they did not know which channels were available for that purpose.

35 OVE surveyed the CSOs that are in the IDB's registry.

05

Conclusions and Recommendations

5.1 While the IDB's governance arrangements have allowed the governing bodies to function and have been adapted slightly over time to changing circumstances, OVE identified factors that hinder the governing bodies' effectiveness, efficiency, and accountability. Factors negatively affecting the effectiveness and efficiency of the governing bodies are varied and include these: (1) lack of clear delineation and understanding of the roles and responsibilities of the governing bodies, leading to gaps and duplication; (2) the way Board and standing committee meetings are managed, how their agendas are set, and the information available to the EXD; (3) the way EXD members are appointed, causing the EXD, as a group, not always to have the skills and experience needed to perform all of its fiduciary responsibilities—an issue exacerbated by the loss of institutional memory resulting from the high rate of member turnover; and (4) lack of a comprehensive framework to hold Senior Management accountable for its commitments, actions, and conduct, as well as a mechanism for EXD self-evaluation, which weakens the EXD's accountability to the Bank's membership.

5.2 Moreover, the challenges arising from the principal-agent relationship are exacerbated by factors identified in the evaluation. The natural information asymmetries that arise from the delegation of responsibilities, especially between the EXD and Management, are exacerbated by the high turnover at the EXD (the highest of all IFIs) and by the Secretary of the Bank's reporting to the President, which potentially further restricts dissemination of the information needed by the EXD to adequately perform its roles and responsibilities. The natural conflicts of interest between Senior Management and the EXD are exacerbated by the President's selection by the BOG, which meets infrequently, and the President's serving as chair of the EXD, as well as by the lack of accountability mechanisms.

5.3 Based on the evaluation's findings, OVE recommends the following:

1. That the EXD establish a governance working group with the support of an independent facilitator, SEC, and OVE, to develop action plans for and ensure the implementation of the recommendations addressed to the Board. The working group should make sure that the final outcomes arising from the action plans and the Bank's official governance documents are consistent and consider both good practice in corporate governance and the practices of other IFIs. To fully implement the action plans, it may be necessary for the EXD to recommend that the BOG implement certain actions, including updating the Bank's governance documents. The working group will produce regular reports

on the implementation of the action plans to the Steering Committee. The EXD may also mandate the working group to consider additional governance issues.

a) The independent facilitator should be a person or firm with extensive experience in and knowledge of corporate governance and IFIs.

b) SEC's role should be to facilitate meetings, keep records, and provide relevant Bank documentation.

c) OVE's role should be to provide advice to the working group based on its findings from the analysis that it conducted during the evaluation.

2. That the working group oversee the drafting of a document that clearly delineates the EXD's and Senior Management's roles and responsibilities, and that would be submitted to the full EXD and subsequently to the BOG for approval. The document should describe the roles and responsibilities in a cohesive manner, especially with respect to strategy setting and oversight, so as to minimize potential gaps or duplication. The working group should ensure that the document is properly discussed with Senior Management before it is sent to the full EXD and before it is sent to the BOG.

3. That the working group review and propose for EXD approval any relevant changes to the reporting line for the Secretary of the Bank and the structure and functions of SEC to reduce information asymmetries between the EXD and Management (which may lead to adverse selection) and to provide independent support to the Board.

4. That the working group propose measures for the EXD to ensure that it has an adequately diverse composition with the appropriate mix of skills and experiences to perform its responsibilities, and to mitigate EXD turnover, including the following:

a) To assist the BOG in its selection of Board members, develop job descriptions for Board members (Executive Directors, Alternate Directors, and counselors) including an expectation of a minimum time in service, and ensure that these are understood by new Board members.

b) Review and update the induction program and the knowledge and learning plan, to balance offering an understanding of the functioning of the Bank with addressing possible gaps in skills and experiences; the use of digital platforms is encouraged to ensure timely delivery.

c) Develop specific training modules for the chairs of all standing committees and their staff to ensure a good understanding of their role and to improve their capacity to plan the work of the committee, develop meeting agendas, run the meetings efficiently, and improve the clarity of chair reports.

d) Create a mechanism that allows the EXD, when needed, to engage subject-matter experts to provide the EXD with advisory services in areas where it lacks independent support, such as legal advice.

5. That the working group develop and ensure implementation of new processes and mechanisms, such as the following, to improve the efficiency of the COW/EXD meetings to provide more time for strategy and oversight discussions:

   a) Make greater use of the Board Platform as the primary channel to streamline and facilitate Board statements and questions about loans and other matters in a manner that is transparent to all members of the Board and to allow staff to allocate their time more efficiently.

   b) Provide another in-person venue for questions and answers about loan proposals, either in an informal meeting, in the Programming Committee, or through the creation of a new Loan Committee.

   c) Create a tracking system for Board requests to Management in the Board Platform.

   d) Vote electronically on most loans, while providing the opportunity for Directors to bring a loan up for discussion at the COW if necessary.

6. That the working group develop a comprehensive framework for the EXD to hold Senior Management accountable for its commitments, actions, and conduct. The framework should include a tracking system for Board requests to Management in the Board Platform. As part of this effort, the working group should also recommend to the BOG that it ensure that the Bank's Code of Ethics and Professional Conduct and the Code of Conduct of the Board of Executive Directors, the latter as long as the President is the chair of the EXD, apply to the President by including an explicit clause in the President's contract and in the codes stating their applicability to the President. The working group should also ensure that the EXD explicitly apply the Bank's Code of Ethics and Professional Conduct to the EVP and VPs by including in their contracts a clause stating the applicability of the code.

7. That the BOG consider discontinuing the President's role as chair of the EXD and delegating the election of the President to the EXD. These proposed actions would facilitate the EXD's ability to hold the entire Senior Management team, including the President, accountable for its commitments, actions, and conduct, as proposed in the previous recommendation.

8. That the working group, consistent with good practice and as a complement to the accountability framework for Senior Management, develop a self-evaluation for the EXD that it would conduct regularly, with the support of external experts.

9. That the working group, in consultation with the EXD, Senior Management, and SEC, develop a proposal to update the process for setting the agenda of the Annual Meeting to promote more interactive discussions with the Governors on the long-term strategic direction of the Bank.

10. That Senior Management prepare a succession plan, under the direction and guidance of the EXD, that would be implemented when there is a change in President, as historically the entire Senior Management team changes when a new President arrives.

11. That Management revise the Bank's hiring practices for external and internal candidates to ensure that transparent and competitive processes are in place and routinely used to fill both staff and management positions, including positions for sector and country managers as well as country representatives.

12. That the Bank publish the salary range for EXD members in its annual report, along with the salary ranges of Senior Management and staff.

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