

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**ANNUAL REPORT OF THE CHAIRPERSON OF THE ORGANIZATION, HUMAN
RESOURCES, AND BOARD MATTERS COMMITTEE, 2013-2014**

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Annual Report of the Chairperson of the Organization, Human Resources and Board Matters Committee, 2013-2014

The Organization, Human Resources and Board Matters Committee (OHRA) had another year with a busy schedule in 2013-2014, meeting on 37 occasions. From this total, 29 meetings were formal and 8 informal. A number of meetings were jointly held with other committees, 6 with the Budget and Financial Policies Committee (BUFIPOL) and 1 with the Audit Committee.

The reasons for this heavy work program had to do mostly with the complexity of some of the issues treated.

The major subjects dealt with by the Committee during this period were:

Human Resources

1. Reform of the Staff Retirement Plans
2. Salary Structure Increase and Annual Salary Adjustment Budget Envelope

Organization

3. Revised Policy of the Independent Consultation and Investigation Mechanism (ICIM)
4. Optima Program
5. Decentralization Action Plan. Progress Report
6. Application for membership in the Inter-American Development Bank by the Government of Singapore
7. Appointment of Judges to the Administrative Tribunal
8. Proposal to modify the procedures for approval of nonreimbursable operations and the corresponding agreements with donors
9. The 2012-2015 Information and Technology Strategy. Interim update

Board Matters

10. Amendments to the Consolidated Procedures and Terms of Reference for the Standing Committees of the Board of Executive Directors
11. Procedures for Director's Travel on IDB Business
12. Governance of the Board of Executive Directors

Below is a summary of the deliberations on these subjects:

1. Reform of the Staff Retirement Plans (GN-2599-35)

In September 2013 Management submitted to the Committee the proposed timeline for the presentation of the documents on the conceptual proposal for implementing the potential

additional parametric or structural changes to the Bank's pension plans. Two informal sessions were held where Management informed on the implementation of the changes introduced in 2011 and explained the possible options for proceeding with the reform of the retirement plans. It was eventually agreed to implement additional parametric changes, for staff hired after December 2014, aimed at enhancing the financial viability and improving the incentive structure of the Plans. Management will present to the Committee specific proposals on the additional parametric changes and on the governance structure of the funds in the third quarter of 2014. The risk-appetite level for the pension funds was debated at a joint meeting with the Audit Committee and it was agreed that Management would submit a proposal on the subject to the Committees also in the third quarter of 2014, after the approval of the new Capital Adequacy Policy.

2. Salary Structure Increase and Annual Salary Adjustment Budget Envelope (GN-2624-18)

The Committee considered Management's recommendations for the 2014 Salary Structure Increase (SSI) for International and National Staff and the corresponding Annual Salary Adjustment Budget Envelope (ASABE). These recommendations were derived from the application of the methodology approved in 2011 as part of the Total Rewards Framework and were presented as an input for the Board's deliberations on the Bank's budget. It should be borne in mind that the role of the OHRA Committee on this matter is to confirm that the methodology in force has been correctly applied. The Committee endorsed the proposal.

3. Revised Policy of the Independent Consultation and Investigation Mechanism (ICIM)

The Committee dedicated a large number of meetings and significant efforts to the Independent Consultation and Investigation Mechanism (ICIM) in general and to the revision of its policy and functioning, in particular. Following-up on the recommendations contained in the evaluation of the ICIM and in the audit report on the budget execution of the Mechanism, carried out at the end of 2012, the Board of Directors decided to revise the ICIM Policy. It was also decided that the current policy would remain in force until the approval of its revised version. A consultant was selected to carry out the revision of the Policy and in June 2013 the Board of Directors approved a transition plan for the Mechanism. According to the plan, the Executive Secretary of the Mechanism would be provisionally responsible for the Consultation phase and the ICIM Panel would function with three members (instead of five) upon the departure of the project Ombudsperson and of two Panel members, respectively, following the termination of their contracts.

- a) Functioning of the ICIM during the transition period - It must be emphasized that the Mechanism functioned without major problems for the past year. The Executive

Secretary appeared before the Committee on several occasions presenting detailed quarterly reports and keeping the Committee informed of all developments. The budget and work program were agreed by the Committee and approved by the Board of Directors and their implementation was carried out according to plan. The contingency fund was not used considering that extraordinary costs could be covered by savings resulting from vacancies. The Committee discussed the principle of the contingency fund and eventually agreed that it should be maintained for the time being. The functioning of the two phases proceeded without major problems and Committee members expressed their recognition of the efforts developed by all the ICIM team during the transition.

- b) Revision of the ICIM Policy – The consultant started by presenting options for the structure of the Mechanism including rough cost estimates. The debate centered on whether the consultation phase should continue being part of the ICIM or be part of the Bank's core structure. Despite a significant number of chairs favoring the later, it was agreed to maintain the current structure.

When the consultant circulated the revised draft policy, opportunity was granted to both Management and to the Office of Evaluation and Oversight (OVE) to provide their comments. A marathon of committee meetings followed in which the document was considered section by section and paragraph by paragraph. Most committee members participated actively both in the debate and through the provision of written comments. This process led to several revisions of the document and the consultant produced three drafts incorporating amendments agreed upon by the Committee. During this period, a public consultation exercise was launched, including meetings with stakeholders both at headquarters and in the region and using the Bank's and the ICIM's websites to receive comments from the public.

Under my guidance, the Office of the Secretary produced a fourth revised version of the policy incorporating as footnotes all comments by the different chairs included in the minutes of meetings and also those provided in writing. The fifth version resulted from the joint work of my office with the Executive Secretary of the Mechanism and had mostly to do with adjusting work flows, procedures and timelines. This version, with minor corrections, received ample support from the Committee to be submitted to public consultation for a period of 30 days. The consultant will prepare a detailed report of the public consultation process, summarizing the conclusions of meetings held and comments received, to be submitted to the Committee for consideration. A final version of the Policy will be sent to the Board of Directors for approval.

The major topics of discussion were related to the structure and objectives of the Mechanism, reporting lines, its concept of independence and institutional and administrative aspects.

Taking into consideration that the revision of the ICIM Policy is taking longer than expected, it was agreed to extend the contracts of the Executive Secretary of the Mechanism until 31 December 2014 and those of the three Panel members until 31 March 2015.

4. Optima Program

The Optima team appeared before the Committee on several occasions to report on the status of implementation of the program, the use of resources, results achieved and future plans. Management believed that the scope of the program needed to be upgraded and submitted to the Committee three possible scenarios. The option agreed upon entailed additional funding and the team presented an updated business case explaining in detail new areas covered, advantages and projected savings. The additional funding requested was included in the Bank's proposal for capital projects and considered by the BUFIPOL. Directors welcomed the improved communications by the Optima team with the Committee and Management committed to maintain a regular schedule of updates and inform on any unforeseen issues.

5. Decentralization Action Plan. Progress Report (GN-2679-2)

In presenting the progress report, Management recalled that several components of the action plan were being implemented through the Human Resources Strategy and the Optima program. Committee members insisted on the need for the next progress report to place greater emphasis on the results or impact of actions taken and their contribution to achieve the objectives of the decentralization exercise.

6. Application for membership in the Inter-American Development Bank by the Government of Singapore (GN-2698)

The Secretary of the Bank presented an oral report to the Committee on the status of talks with the Government of Singapore regarding its application for membership in the Bank. Following a series of meetings, the Committee agreed a range of parameters for negotiations with the Government of Singapore, including a range for the financial contribution. It was also agreed that the Government of Singapore would be part of the three windows of the Bank Group (IDB, IIC, and the MIF) and would make contributions to the Fund for Special Operations (FSO).

The Secretary of the Bank will keep the Committee informed on any developments in the negotiations.

7. Appointment of Judges to the Administrative Tribunal (GA-103-52)

The revised Statute of the Administrative Tribunal, approved in 2013, included regulations for the Nominating Committee, responsible for the selection of the judges and the executive secretary of the Tribunal for final decision of the Board of Directors. The Nominating Committee presented five candidates to the OHRA Committee to fill the two existing vacancies in the Tribunal and Mrs. Edith Brown Weiss and Mr. Alberto Wray were appointed by the Board of Directors upon recommendation of the OHRA Committee. The process for selecting candidates to fill the forthcoming two vacancies has been launched.

Bearing in mind that the contract of the Tribunal's Executive Secretary ends on 31 July 2014, the Nominating Committee started the procedure for the selection of candidates for the position. However, considering that this process will likely go beyond this date, it was agreed to extend the contract of the Executive Secretary until 31 December 2014.

8. Proposal to modify the procedures for approval of nonreimbursable operations and the corresponding agreements with donors (GN-2752)

The proposal was considered on three occasions in order to adapt it to the Committee's recommendations. It was eventually agreed to increase the current authority delegated to the President to approve nonreimbursable technical-cooperation and investment grant operations from the current US\$1.5 mn to US\$3 mn. It was also agreed to authorize consideration by the Board of Directors of nonreimbursable technical-cooperation and investment grant operations for up to US\$10 mn by short procedure. At the last session of the Committee on the subject, the debate centered on the delegation of authority from the IDB Board of Directors to the Donors Committee of the MIF (Multilateral Investment Fund), to approve technical cooperation operations financed under the Technical Cooperation Framework, when resources administered by the Bank are used to cofinance projects with resources from the MIF. This delegation is currently in effect for operations of up to US\$1.5 mn and the proposal was to increase it to US\$3 mn. However, several Chairs expressed concern about the principle of the delegation, considering that the two bodies have different memberships and approval processes. It was agreed that Management would engage in bilateral meetings with interested chairs and return to the Committee with a revised proposal.

9. The 2012-2015 Information and Technology Strategy. Interim update (GA-182-27)

The newly appointed Manager of the Information & Technology Department (ITE) presented the update and was welcomed by the Committee. Several Directors emphasized the need for greater integration of the ITE Strategy with other Bank strategies, namely with the Human Resources Strategy and the Decentralization exercise. Management informed that a new strategy would be prepared in 2015 and it would take these concerns into account. The Optima program was now

more integrated in the ITE Department which, in addition, would work with other departments involved, in measuring the impact of Optima in the Bank.

10. Amendments to the Consolidated Procedures and Terms of Reference for the Standing Committees of the Board of Executive Directors (DR-525-29 and DR-525-31)

Two sets of amendments to the “Consolidated Procedures and Terms of Reference for the Standing Committees of the Board of Executive Directors” were submitted to the Committee. The first amendment aimed at clarifying that the Conduct Committee of the Board of Directors should not be considered a Standing Committee of the Board and should function in accordance with the Code of Conduct and its operating guidelines. The second amendment originated from a recommendation of the Office of the Executive Auditor contained in the audit report – “2012-2015 Information and Technology Strategy Implementation” – to include in the terms of reference of the OHRA Committee a specific reference to the Bank’s Information and Technology Strategy. Both recommendations were agreed by the Committee and approved by the Board of Directors.

11. Procedures for Director’s Travel on IDB Business (DR-568-5)

Responding to a request originating from the Steering Committee at its 7 February 2014 meeting, the Bank’s General Counsel, in his capacity as a legal advisor to the Board of Executive Directors, with the Board’s Budget Coordinator, presented a second revised version of the Procedures for Directors’ Travel on IDB Business for consideration by the OHRA Committee. The Committee agreed that the matter should be addressed more comprehensively and include budgetary and governance considerations, which would involve joint meetings with BUFIPOL.

12. Governance of the Board of Executive Directors (DR-853)

A document titled “Working Groups Session - Governance of Board of Executive Directors” was prepared based on the debate held during the retreat of the Board of Directors of August 2013. The document contains a wide range of recommendations originated from the several working groups formed at the said retreat. The Committee discussed how to follow-up on these recommendations and concluded that the most appropriate way forward would be to consider it at the forthcoming Board retreat to be held in July 2014. The objective will be to prioritize recommendations and decide how to implement them.