



Global Environment Facility
Fiduciary Management Standards

Standards and Practices Review Template

Draft Version Agency: Inter-American Development Bank (IADB)

This is an advanced **draft** elaborated by all the relevant divisions inside the IADB responsible for the evaluation of compliance with each of the fiduciary standards. This draft is in the process of being revised by the IADB legal department and final approval by the Vice-presidency of Countries. If any changes should occurred due to this review they will be inserted with track changes in the final document expected to be submitted to GEF no later than **Monday March 3rd 2008**.

Proprietary and Confidential
Draft — Preliminary and Tentative — For Discussion Purposes Only

February 25, 2007

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A. Audit, Financial Management and Control Framework**(1) External Financial Audit**

The external financial audit function ensures an independent (as defined by the International Federation of Accountants (IFAC)) review of financial statements and internal controls.

- a. The agency has appointed an independent external audit firm or organization.
- b. The work of the external audit firm or organization is consistent with recognized international auditing standards such as International Standards on Auditing (ISA).
- c. Financial statements are prepared in accordance with recognized accounting standards such as International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP) that are accepted in major capital markets for listed companies.
- d. The internal controls over financial reporting cover the use of GEF funds, and Management asserts to the agency governing body that these internal controls are adequate.
- e. An annual audit opinion on the financial statements is issued by the external auditor and made public.
- a. An independent audit committee, or comparable body, is appointed and oversees the work of the external audit firm or organization as it relates to the audit of the financial statements. The audit committee or comparable body has written terms of reference that address its membership requirements, duties, authority, accountability and regularity of meetings.
- g. The external auditor makes regular reports of observations with respect to accounting systems, internal financial controls, and administration and management of the organization. Auditor and management progress reports are reviewed by the audit committee or comparable body annually.

I. **Description of how agency meets this standard:**

Inventory of Current Organizational Environment	Documentation References
<p>a. Yes. The Board of Governors appointed Ernst & Young (E&Y) through a bidding process for the five-year period of 2007-2011. Services provided by E&Y include annual audits of financial statements and internal controls of IDB's main resources: the Ordinary capital (OC), and from 2007, the Fund for Special Operations (FSO). The service agreement with E&Y also entails the provision of auditing services to trust funds and external resources administered by the IAD (e.g. GEF Trust Fund).</p> <p>b. Yes. The External Auditors conduct their audits of the OC (from Fiscal Year (FY) 2006) and FSO (from FY 2007) in accordance with the standards of the Public Company Accounting Oversight Board (United States). The audits of trust funds and external resources administered by the IDB (i.e. GEF Trust Fund) are conducted in accordance with the generally accepted auditing standards of the United States of America..</p> <p>c. Yes. The financial statements of the OC and most trust funds and external resources, including the GEF Fund, are prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). Starting in FY2007, the financial statements of the FSO are also prepared in accordance with GAAP.</p> <p>d. Yes. IDB's Management assesses and issues a report as to the effectiveness of internal control over financial reporting (ICFR) for the OC and FSO, using the criteria established by COSO. Additionally, as stated in a. above, services provided by E&Y include annual audits of ICFR of the IDB's main resources: the OC (from FY 2006) and the FSO (from FY 2007). However, the services of External Auditors have not been engaged to perform annual audits nor Management makes individual assessments of the effectiveness of the ICFR of trust funds and other external resources, including the GEF Trust Fund.</p> <p>Even though Management's report and External Auditor's opinion on effectiveness of ICFR covers only the main funds (OC and FSO), the entity level aspects, such as tone at the top, fraud considerations, risk assessment, include the GEF and other trust</p>	<p>IDB Annual Report. Additional Financial Disclosures</p> <p>IDB Annual Report.</p> <p>Audit Committee Terms of Reference</p> <p>http://www.iadb.org/aboutus/</p> <p>By-Laws of the IDB Section 10, (ref pg 4/)</p>

Inventory of Current Organizational Environment	Documentation References
<p>funds; further, the IDB uses the same internal control structure for the trust funds as it uses for its main resources and internal controls are overseen by the Audit Committee.</p> <p>e. Yes. Annual Reports of the IDB are available online to the public and include the audit opinions issued by the External Auditors on the financial statements of the OC, the FSO and the Bank's other resources. . The financial statements of the Trust Funds and other external resources are available only to supporting donors.</p> <p>f. Yes. The Audit Committee, established by the Board of Executive Directors (Board) is responsible for assisting the Board in overseeing IDB's financial reporting, risk management and internal controls, internal and external auditing, and institutional integrity. Audit Committee members are Executive Directors, independent from Management and have established their own Terms of Reference to which they adhere. All members of the Audit Committee strive to have a working familiarity with basic finance and accounting practices. The Audit Committee has implemented an orientation educational program and continuing educational programs to enhance the financial literacy of its members. The key principles of the Audit Committee are also listed in the IDB Annual Report..</p> <p>g. Yes. External auditors audit the OC and FSO ICFR and report annually to the Audit Committee. The audits of trust funds and other external resources administered by the IDB (i.e. GEF Trust Fund) include consideration of ICFR by the external auditors as a basis for designing their audit procedures, but not for expressing an opinion on the effectiveness of internal control over financial reporting. Once a year, the External Auditors issue a letter addressed to Management with recommendations on internal control matters; this letter covers all funds.</p>	

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II. Description of area(s) in which agency does not meet this standard, and description of agency’s monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall
None. The IDB meets all requirements regarding this standard, except as noted above in item d) regarding the scope of Management assessment and the External Auditors engagement to make individual assessments of the effectiveness of ICFR of trust funds, including GEF Trust Fund.	

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1. Financial Management and Control Frameworks

An internal control framework, as defined by internationally recognized frameworks such as COSO, Cadbury and CoCo, is a risk-based process designed to provide reasonable assurance and feedback to management regarding the achievement of objectives in the following categories:

- *Effectiveness and efficiency of operations*
 - *Reliability of financial reporting and financial management frameworks*
 - *Compliance with applicable policies and procedures.*
- a. A control framework has been adopted that is documented and includes clearly defined roles for management, internal auditors, the board of directors or comparable body, and other personnel.
- b. The control framework covers the control environment (“tone at the top”), risk assessment, internal control activities, monitoring, and procedures for information sharing.
- c. The control framework has defined roles and responsibilities pertaining to accountability within the control framework for fiscal agents and fiduciary trustees.
- d. At the institutional level, risk-assessment processes are in place to identify, assess, analyze and provide a basis for proactive risk responses. Risks are assessed at multiple levels, and plans of action are in place for addressing risks that are deemed significant or frequent.
- e. The control framework guides the financial management framework.
- f. Procedures are in place for identifying internal controls and assessing controls details annually in the following financial management areas:
- Budgeting;
 - Accounting;
 - Internal control;
 - Funds flow (including disbursements, cash management, unused fund close-out);
 - Financial reporting; and
 - Auditing arrangements.
- g. Duties are segregated where incompatible. Related duties are subject to a regular review by management; response is required when discrepancies and exceptions are noted; and segregation of duties is maintained between: settlement processing; procurement processing; risk management/reconciliations; and accounting.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>a. Yes. The Bank implemented in 2006, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework, and established an annual process for Management to report on the effectiveness of internal controls over financial reporting, and for the external auditors to audit and report on internal controls over financial reporting for both the OC and the FSO. The process is documented and the Risk & Control Group, charged with the coordination and evaluation of the COSO Framework process, issues and distributes a “Controls Guide” which defines the roles and responsibilities regarding internal controls over financial reporting for the Board of Directors, Managers, Internal Auditors and other personnel. Additionally, IDB has an approved Management Internal Control Policy which states that Management is responsible for establishing and maintaining a network of internal control processes. This document also lists management responsibilities..</p> <p>b. Yes. The process covers the five components of the COSO Framework: (i) entity wide controls; (ii) risk assessments; (iii) control activities; (iv) monitoring; and (v) information and communication.</p> <p>c. Yes. The Risk and Control Group charged with the coordination and evaluation of the COSO Framework, processes, issues and distributes a “Controls Guide” which defines the roles and responsibilities regarding internal controls over financial reporting for Board of Directors, Managers, Internal Auditors, and other personnel. Additionally, IDB has an approved Management Internal Control Policy, which states that Management is responsible for establishing and maintaining a network of internal control processes. This document also lists Management responsibilities.</p> <p>d. Yes. The Bank has a Risk Management Office which assesses and serves as basis for risk responses. Additionally, The Risk and Control Group coordinates the COSO Framework process to assess and monitor the risk over financial reporting. Moreover, as part of the annual risk assessment process of the Office of the Auditor</p>	<p>IDB Basic Organization Document</p> <p>IDB Annual Report</p> <p>Management Internal Control Policy, (ref pg 1/) Control Guide</p> <p>Report on the effectiveness of internal control over financial reporting as of December 31, 2007</p> <p>Management Internal Control Policy, (ref pg 1/)</p> <p>IDB Manuals</p> <p>By-Laws of the IDB Section 10 (ref.pg 4/)</p>

Inventory of Current Organizational Environment	Documentation References
<p>General identifies and updates the relative risks of operational, financial, administrative and information technology functions for the Bank. For the OC and FSO only, Management issues annually a report on the effectiveness of the ICFR and the External Auditors issue an opinion on ICFR annually.</p> <p>e. Yes. Managers at all levels of the Bank should specify, establish and document policies regulations, strategies, procedures, systems, and other disciplines to be used to minimize mitigate and or limit the risks associated with the exposure identified. The implementation process of the COSO Framework helped improved the identification and documentation of control activities and processes. Business units test key specific key controls under their responsibility using test packs prepared by the Risk and Control Group in charge of the COSO Framework coordination.</p> <p>f. Yes. Management is responsible for establishing and monitoring internal controls. As part of the annual risk assessment process, the Office of the Auditor General identifies and updates the relative risks of operational, financial, administrative, and information technology functions for the Bank. Moreover, the Risk and Control Group also identifies and assesses key controls processes and activities related to financial reporting. Each Business Unit is responsible for the testing of theses controls. Management assesses the design and effectiveness of the internal controls over financial reporting on an annual basis.</p> <p>g. Yes, the IDB's internal policies and procedures call for the segregation of duties, so that incompatible functions are not performed by a single person.</p>	

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II. Description of area(s) in which agency does not meet this standard, and description of agency's monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall
<p>None. The IDB meets all requirements regarding this standard, except as noted above in item a), both Management and External Auditors processes and reports are limited to the effectiveness of internal controls over financial reporting, for both the OC and the FSO only.</p> <p>Our internal control framework does not <i>provide reasonable assurance and feedback to management regarding the achievement of objectives in the following categories:</i></p> <ul style="list-style-type: none">• <i>Effectiveness and efficiency of operations</i>• <i>Compliance with applicable policies and procedures.</i>	

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(3) Financial Disclosure

The financial disclosure policy establishes and/or strengthens the process surrounding mandatory financial disclosures of possible or apparent conflicts of interest by identified parties.

- a. A documented financial disclosure policy covering identified parties defines conflicts of interest arising from personal financial interests that require disclosure, including actual, perceived and potential conflicts.
- b. The policy specifies who is required to adhere to the standards, including employees, employee family members, consultants, or independent experts at a management decision making level with the following responsibilities:
 - Contracting or procurement;
 - Developing, administering, managing, or monitoring loans, grants, programs, projects, subsidies, or other financial or operational benefits provided by the bank; and
 - Evaluating or auditing any project, program or entity.
- c. The policy specifies prohibited personal financial interests.
- d. The policy describes the principles under which conflicts of interests are reviewed and resolved by the agency. It describes sanction measures for parties that do not self disclose where a conflict of interest is identified. The policy contains references to other related internal policies, such as outside employment policies.
- e. Parties covered by the policy are provided a way to disclose personal financial interests annually to an administrative function within the agency.
- f. The policy establishes processes for the administration and review of financial disclosure interests of the defined parties defined as well as resolution of identified conflicts of interests, under an independent monitoring/administration function.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>a. Yes, the procedures and the Code of Ethics and Professional Conduct</p> <p>b. Yes, the procedures and the Code of Ethics and Professional Conduct clearly mentions what constitutes conflict of interest including financial interest giving examples of the most common conflicts of interest and providing guidance for employees in dealing with them. There is also a special procedure that only staff at higher-grade levels should follow. Further, the Code states that if an employee becomes aware of the fact that a member of his or her immediate family or an affiliate has any of the financial interest specified in the Code under “Prohibited Financial Transactions”, he or she shall report that fact to the Ethics Officer within five (5) business days. Moreover, the Bank keeps a record of the vendors with which the Bank and its borrowers have relations.. For corporate procurement, the Bank maintains a vendor master file in its pertinent corporate database, as well as for vendors used by the Bank’s borrowers in operations funded by the Bank. The systems are updated every time a new vendor is added or deleted and are available to the Bank’s employees. Please also see B.7 of the Code. Also, the Code defines the avenues any employee could follow in case of any concern regarding issues covered by the Code: 1) Ethics Officer; 2) The Human Resources Department Manager, Local Support Division Chief or Employment Relations Advisor; 3) His or her supervisor; 4) His or her supervisor’s superior(s), including the Department Manager. The Code of Ethics and Professional Conduct is available to all Bank employees in the Bank’s intranet. It is also available through the Bank’s extranet. The declaration of interest review process is summarized in the Code.</p> <p>c. The Code clearly specifies what financial transactions the Bank’s employees must refrain from:</p> <p>1- Short-term trading in securities issued by the Bank;</p>	<p>The Declaration of Interest Review Process and Procedures (the whole document)</p> <p>The Code of Ethics and Professional Conduct (ref pg 5 – 9,14,16 and Annex A)</p> <p>Bank Manuals CO 402-3 Vendor Master File review and CO-301 Information systems – Procurement Information System-PRISM</p>

Inventory of Current Organizational Environment	Documentation References
<p>2- Knowingly acquiring, directly or indirectly, for his or her own account or the account of others, any financial interest in (a) a loan made by the Bank; or (b) any entity engaged in a financial transaction or other financial or supplier relationship with the Bank, including a borrower or executing agency of a Bank-financed activity, which could reasonably be seen as influential to his or her decision-making or otherwise as a source of conflict of interest from the time the transaction or relationship begins until the time the transaction or relationship is terminated. In order to ensure that no employee has a prohibited interest that might affect his or her judgment in the performance of his or her duties, employees grade 3 and above are required to file statements of interest for themselves and immediate members of their family. All other employees are required to file an annual affidavit affirming that they are not engaged in any of the transactions prohibited by this Code. Also, as stated in b. Above, the Bank keeps a record of the vendors the Bank or its borrowers have relations to. For corporate procurement, the Bank maintains a vendor master file in its pertinent corporate database, as well as for vendors used by the Bank's borrowers in operations funded by the Bank. The systems are updated every time a new vendor is added or deleted and are available to Bank's employees.</p> <p>Vendor master file information from the corporate procurement system (Lawson) is not available to all employees. While PRISM, which maintains information on borrower's contracts, is available, it is not known as a reliable source for this information.</p> <p>d. Yes, the Ethics Officer oversees the process for monitoring, reviewing and dealing with the resolutions of conflict. In addition to the Code of Ethics, the procedure followed by the Ethics Officer is defined in the internal document "Declaration of Interest Review Process and Procedure. In order to ensure that no employee has a prohibited interest that might affect his or her judgment in the performance of his or her duties, employees grade 3 and above are required to file statements of interests for themselves and immediate members of their family. All other</p>	

Inventory of Current Organizational Environment	Documentation References
<p>employees are required to file an annual affidavit affirming that they are not engaged in any of the transactions prohibited by this Code.</p> <p>e. Yes. As stated in d. above, staff is required to file annually statements of interests for themselves and immediate members of their family or an annual affidavit affirming that they are not engaged in any of the transactions prohibited by this Code. The statements and the affidavits are submitted to the Ethics Officer who arranges for their review. The statements and the affidavits are submitted to the Ethics Officer during the first quarter of each calendar year. The Ethics Officer is responsible for determining what information will be disclosed and the manner and procedure of disclosure consistent with the provisions and obligations of the Code.</p> <p>f. Yes, as stated in d. the Ethics Officer oversees the process for monitoring, reviewing and dealing with the resolutions of conflict. The Ethics Officer (EO) reports to the Vice-President of Finance and Administration. In addition, the Committee of Ethics and Professional Conduct (Committee) handles situations of misconduct of the Code. The EO functions as Secretary of the Committee and in this regard the EO reports to such Committee to fulfill her obligations in accordance with the applicable policies. The Committee is independent: therefore it is not expected to have conflict of interest in allegations against the VPF. The Code describes the role of the Committee in section “Implementation of the Code”. In addition, the Operational Guidelines of the Committee of Ethics and Professional Conduct are described in the Code, annex A.</p>	

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II. Description of area(s) in which agency does not meet this standard, and description of agency’s monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall
None. The IDB meets all requirements regarding this standard.	

4) Code of Ethics

A code of ethics for agency staff promotes responsible governance and ethical behavior.

- a. A documented code of ethics defines ethical standards to be upheld, including protecting agency and trust fund assets. The code lists parties required to adhere to the standards including employees, consultants, and independent experts. It describes disciplinary and enforcement actions for violations, and provides for appropriate flexibility in application and implementation in local environments.
- b. An ethics or related function provides administrative support for the code, including distributing the code, monitoring compliance, and authority to refer to the agency's investigation function for alleged violations.
- c. Multiple avenues for reporting compliance and/or other business conduct concerns such as hotline and contact information for functional/department options (e.g. human resources and internal audit) are readily available (e.g. by posting them to the agency's intranet and external websites).

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>a. Yes. The Bank has the Code of Ethics and Professional Conduct. The Code contains the standards and principles, its purpose, application, enforcement and disciplinary actions. The Code is mandatory for the Bank and all of its employees, regardless of their form of contract. In addition, the Bank has the Code of Ethics of the Board of Executive Directors that applies to the Bank's Executive Directors, Alternate Executive Directors, and their Counselors. Also, the Code has a section on "National Laws and Privileges and Immunities". In this section, the Bank states "employees are required to observe the applicable laws of the countries where they provide services to the Bank. Therefore, an employee's violation of national laws, including those pertaining to violent behavior or domestic violence, may be considered misconduct.</p> <p>b. Yes. The Committee of Ethics and Professional Conduct shall advise the Ethics Officer on matters covered by the Code. When the Committee finds that Misconduct</p>	<p>The Code of Ethics and Professional Conduct and the Code of Ethics of the Board of Executive Directors)</p> <p>Casework Manual for the Office of the Institutional Integrity (ref pg 17)</p> <p>OII Annual Report 2007 (ref pg 6 –7)</p> <p>Operating Guidelines and Regulations for the Oversight Committee on Fraud & Corruption (ref pg 2/)</p> <p>Terms of reference of the Committee of Ethics and Professional Conduct which is available in the Bank's website (Integrity at the IADB) and</p>

Inventory of Current Organizational Environment	Documentation References
<p>has occurred, it may recommend remedial actions and/or disciplinary sanctions to the appropriate Bank authority.</p> <p>c. The Office of Institutional Integrity ("OII") receives all allegations of fraud and corruption. Upon receiving the allegation, OII makes an initial determination whether the information available may concern an issue of fraud or corruption or whether it could be considered a case of misconduct. If the allegation of fraud and corruption concerns a staff member, OII will inform the Ethics Officer so that a determination can be made as how to handle this situation. As a safeguard, all allegations received by the OII are initially reported to the Oversight Committee on Fraud and Corruption, which is composed of the Executive Vice President, Vice President of Finance and Administration, Vice President of Countries, the General Counsel and the Auditor General. On the other hand, internal allegations relating to the Code of Ethics and Professional Conduct are referred to the Ethics Officer for further investigation. Once passed on to the Ethics Officer, these types of cases are out of OII's hands. As a safeguard, all allegations received by the OII are initially reported to the Oversight Committee on Fraud and Corruption, which is composed of the Executive Vice President, Vice President of Finance and Administration, Vice President of Countries, the General Counsel and the Auditor General.</p>	the Bank Manual OR-307

II. Description of area(s) in which agency does not meet this standard, and description of agency's monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall
<p>None. The IDB meets all requirements regarding this standard.</p>	

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(5) Internal Audit

Internal auditing is an independent, objective activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

- a. Internal audit activity is carried out in accordance with internationally recognized standards such as those prescribed by the Institute of Internal Auditors (IIA).
- b. Auditors and entities that provide internal auditing services adhere to ethical principles of integrity, objectivity, confidentiality and competency.
- c. The internal audit function is independent and objective in the execution of its respective duties. There is an officer designated to head the internal audit function. The chief audit officer reports to a level within the organization that allows the internal audit activity to fulfill its responsibilities objectively.
- c. The internal audit function has documented a terms of reference/charter that outlines its purpose, authorized functions, and accountability.
- d. The internal audit function has a documented description of the annual audit planning process, including a risk-based methodology for preparing an audit plan. The audit plan outlines the priorities of the function and is consistent with the agency's goals.
- e. The chief audit officer shares information and coordinates activities with relevant internal and external parties (including external financial statement auditors) to ensure proper coverage and minimize duplication of efforts.
- f. The internal audit function disseminates its findings to the corresponding senior and business management units, who are responsible for acting on and/or responding to recommendations.
- g. The internal audit function has a process in place to monitor the response to its recommendations.
- h. A process is in place to monitor and assess the overall effectiveness of the internal audit functions including periodic internal and external quality assessments.

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I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>a. Yes. The Office of the Auditor General ("AUG") carries out internal audits in accordance with <i>The International Standards for the Professional Practice of Internal Auditing (Standards)</i>.</p> <p>b. Yes. The Charter of AUG stipulates that the Auditor General and staff are not authorized to:</p> <ul style="list-style-type: none"> • Perform any operational duties for the Bank • Initiate or approve accounting transactions external to AUG • Direct the activities of any Bank employee not employed by AUG <p>c. Yes, AUG carries out the internal audit functions. The Auditor General, the head of AUG, directly reports to the President and to the Audit Committee. AUG is also responsible for reporting to appropriate levels of Bank management appraisals, recommendations and pertinent comments concerning the activities that it reviewed.</p> <p>AUG has a charter that outlines the following:</p> <ul style="list-style-type: none"> • Mission • Scope of work • Independence requirements • Accountability requirements • Responsibilities • Authority • Standards of Audit Practice <p>The charter is approved by the President and Audit Committee. The last approval was February 2005. AUG is currently in the process of finalizing an update to the charter and approval is expected in the next few months.</p> <p>d. Yes. The Charter of AUG specifies that the Auditor General and staff have responsibility to:</p>	<p>Charter of the Office of the Auditor General (ref pg 1-3.)</p> <p>AUG's Quality Assurance and Improvement Program.</p> <p>IIA Report</p> <p>(Note that these were included in my original submission of information. Were these documents excluded from this version on purpose?)</p>

Inventory of Current Organizational Environment	Documentation References
<ul style="list-style-type: none"> • Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Bank management • Implement the annual audit plan including, as appropriate, any special tasks or projects by Bank management or the Audit Committee <p>AUG performs an annual risk assessment. The risk assessment is a major input to the annual audit plan.</p> <p>e. Yes. AUG coordinates its audit work with the External Auditors as part of the annual planning process and through ongoing communication. AUG also provides the External Auditors with copies of its reports at the time they are issued. In addition, through its participation in the testing of internal controls over financial reporting, AUG coordinates the related work with the Risk and Control Group.</p> <p>f. Yes. The Charter of AUG specifies that the Auditor General and staff have responsibility to:</p> <ul style="list-style-type: none"> • Issue periodic reports to the Audit Committee and Bank management summarizing results of audit activities • Keep the President and the Audit Committee informed of emerging trends, successful practices, and significant measurement criteria in internal auditing • Identify opportunities for improving management control and report these opportunities to the appropriate level of management and the Audit Committee <p>At the time of audit report issuance, the business functions and Senior Management receive audit reports for their corresponding areas. The Audit Committee receives semi-annual reports of AUG reports issued.</p> <p>g. Yes. Recommendations are followed-up on until the issue is resolved or management accepts the related risks. On a quarterly basis, the Audit Committee is informed of significant recommendations that have not been implemented.</p>	

Inventory of Current Organizational Environment	Documentation References
<p>h. The Charter of AUG specifies that AUG as part of its accountability to the Audit Committee and the President must maintain a Quality Assurance and Improvement Program designed to provide reasonable assurance to its various stakeholders that AUG:</p> <ul style="list-style-type: none"> • Performs its work in accordance with its Charter, which is consistent with IIA Standards • Operates in an effective and efficient manner • Is perceived by stakeholders as adding value and improving AUG's operations <p>The AUG Manual includes a chapter on Quality Assurance and Improvement Program. The program covers ongoing supervision and monitoring, as well as periodic internal and external quality assessments. The last external assessment was performed in 2005 and was sent for consideration to the Audit Committee early in 2006. The overall opinion was that AUG "Generally Conforms" to the International Standards for the Professional Practice of Internal Auditing (Standards). In IIA's lexicon, generally conforms means that an internal audit activity has a charter, policies and processes that are judged to be in accordance with the Standards, with some opportunities for improvement, as discussed in their recommendations.</p>	

II. Description of area(s) in which agency does not meet this standard, and description of agency's monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall
<p>None. The IDB meets all requirements regarding this standard</p>	

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B. Project/Activity Processes and Oversight

(1) Project Appraisal Standards, including safeguards measures, as appropriate

Project appraisal functions include the establishment of standards and appropriate safeguards that are used to determine whether projects and activities will meet their development goals before funds are dispersed.

- a. An independent project and/or activity appraisal process is in place with the purpose of examining whether proposed projects and/or activities meet appropriate technical, economic, financial, fiduciary, environmental, social, institutional and/or other relevant criteria, including GEF-mandated criteria, and whether they are reasonably likely to meet stated objectives and outcomes. The process ensures an appropriate degree of institutional checks and balances at the stage of project design.
- b. Project and/or activity development objectives and outcomes are clearly stated and key performance indicators with baseline and targets are incorporated into the project/activity design.
- c. Risk-assessment procedures are in place specifying the criteria and circumstances under which environmental, social, institutional and/or fiduciary assessments must be conducted.
- d. Adequate oversight procedures are in place to guide the appraisal process and ensure its quality and monitoring of follow-up actions during implementation.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>a. Yes. IDB has an independent project appraisal process in terms of the following technical and policy committees that all projects have to go through:</p> <p>Quality and Risk Review. Includes technical, development effectiveness, institutional, legal and financial risk review undertaken by participants from the correspondent departments within the IDB in the project identification and conceptualization phase as well as in the final project design phase.</p> <p>Environmental and Social impact Review. Review and advice on the environmental and social project classification, application of IDB's environmental</p>	<p>Manuals for operation processing:</p> <p>PR-200 Investment Loans outlines the operations processing guidelines (also applies to grant operations over US\$3,000,000)</p> <p>PR-1000 Non-Reimbursable Technical Cooperation processing guidelines</p> <p>PR-1000 Project Document Review and Approval Process</p>

Inventory of Current Organizational Environment	Documentation References
<p>and social safeguards, and the adequacy of the project Environmental and social Strategy in accordance with the OP-703 Environment and Safeguards Compliance Policy.</p> <p>Operations Policy Committee. Considers corporate, policy and institutional issues related to individual operations at a mature stage of preparation.</p> <p>Board of Executive Directors. Final approval of operations submitted via the Sector Vice-presidency.</p> <p>As part of project preparation, four missions are conducted: Identification, orientation, analysis, and negotiation. Mandatory technical annexes and tools for risk analysis are applied to all projects to make sure that technical, economic, financial, fiduciary, environmental, social, and institutional criteria are met in the project preparation. Final negotiation with client country is mandatory and led by the legal department to insure the application of agreed conditions for disbursement before final Approval of project by the Board of Executive Directors.</p> <p>Additional reviews by the IDB GEF coordination and technical support staff apply to GEF projects to make sure the projects meet GEF policies and procedures and Focal Area objectives and technical requirements.</p> <p>b. Yes. Annex I “Results Framework Matrix of Indicators” applies to the design of all projects. The matrix links objectives, outcomes and outputs to project years, components and activities. Indicators, their base-line and sources of data must be identified during project preparation. The data from the matrix is migrated into the Project Performance Monitoring Report system to monitor results and benchmarks in the execution phase. In the case of GEF projects the indicators used are adjusted to GEF guidelines related to the relevant Focal Area.</p> <p>c. Yes. Social and environmental risks and their mitigation measures are systematically identified as part of project preparation in accordance with the OP-703 Environment and Safeguards Compliance Policy, OP-765 Indigenous Peoples Policy, OP-704 Disaster Risk Management Policy, and OP-710 Involuntary Resettlement. All Bank financed operations are screened and classified according to</p>	<p>PR-1100 Project cycle</p> <p>OP-703 Environment and Safeguards Compliance Policy</p> <p>Checklists and Templates (PIF):</p> <p>Appendix: Risk assessment template</p> <p>Annex I: Safeguard Policy Filter</p> <p>Annex II: Safeguard Screening and Classification Forms</p> <p>Annex III: Environment and Social Safeguard Strategy</p> <p>Annex IV Index for completed and proposed sector work</p> <p>Annex I: Results Framework Matrix of Indicators</p> <p>Checklists and Templates (Project design): Proposal for operation Development (POD) template</p> <p>Appendix: Risk assessment template</p> <p>Annex I: Results Framework Matrix of Indicators</p> <p>Annex II: Procurement Plan</p>

Inventory of Current Organizational Environment	Documentation References
<p>their potential environmental and social impacts as part of the Environmental and Social impact Review using the Safeguard Toolkit. Screening is carried out early in the preparation process to allow for the selection of appropriate environmental assessment or due diligence requirements. The classification for each operation is disclosed in accordance with the Bank's Disclosure of Information Policy (OP-102). The Bank periodically assesses the performance of its screening and classification procedures. The following classification and due diligence applies:</p> <ul style="list-style-type: none"> Any operation that is likely to cause significant negative environmental and associated social impacts, or have profound implications affecting natural resources, will be classified as Category "A". These operations will require an environmental assessment (EA), normally an Environmental Impact Assessment (EIA) for investment operations, or other environmental assessments such as a Strategic Environmental Assessment (SEA) for programs and other financial operations that involve plans and policies. Category "A" operations are considered high safeguard risk. For some high safeguard risk operations that, in the Bank's opinion raise complex and sensitive environmental, social, or health and safety concerns, the borrower should normally establish an advisory panel of experts to provide guidance for the design and/or execution of the operation on issues relevant to the EA process, including health and safety. Operations that are likely to cause mostly local and short-term negative environmental and associated social impacts for which effective mitigation measures are readily available will be classified as Category "B". These operations will normally require an environmental and/or social analysis, according to, and focusing on, the specific issues identified in the screening process, and an environmental and social management plan (ESMP). Operations that are likely to cause minimal or no negative environmental and associated social impacts will be classified as Category "C." These operations do not require an environmental or social analysis beyond the screening and scoping analysis for determining the classification. However, where relevant, these operations will establish safeguard, or monitoring requirements. <p>Other risks, including institutional and fiduciary risks, and their mitigation measures must be identified as part of project preparation in the Risk Assessment Template reviewed by the Quality and Risk Review Committee.</p>	<p>Annex III: Safeguard screening and classification forms</p> <p>Annex IV: Operative Plan first 18 month (POA)</p> <p>Annex V: Monitoring and Evaluation Arrangements Institutional Capacity Assessment System (SECI)</p> <p>Annex I: Results Framework Matrix of Indicators</p> <p>CO-303 Project Performance Monitoring Report (FLD-25)</p> <p>PPMR system</p>

Inventory of Current Organizational Environment	Documentation References
<p>d. Yes. The Bank monitors the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan or grant agreement and project operating or credit regulations. Safeguard requirements, such as those in an ESMP must be incorporated into the project contract documents, its operating or credit regulations, or the project bidding documents, as appropriate, setting out necessary milestones, timeframes and corresponding budgetary allocations to implement and monitor the plan during the course of the project. Safeguard indicators, as appropriate, should be clearly defined in the Results Framework, followed up in project monitoring reports and reviewed in mid-term reviews and project completion reports. Compliance with safeguard commitments and identification of unexpected safeguard issues is analyzed, reviewed and reported as part of Bank's administration and portfolio review missions. Category "A" projects are reviewed at least annually to assess safeguard compliance. Whenever ex-post evaluations are conducted, these evaluate the sustainability outcomes of an operation.</p> <p>Projects are monitored for changes in other risks during life of project. In accordance with the CO-303 Project Performance Monitoring Report (FLD-25) findings are reflected in the Project Performance Monitoring Report system and the Alert Identification System (for projects at risk). Midterm and final evaluation must be undertaken of all IDB projects and a Project Conclusion Report must be prepared reviewed by the Office of Evaluation and Oversight.</p>	

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II. Description of area(s) in which agency does not meet this standard, and description of agency’s monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall
None. The IDB meets all requirements regarding this standard	

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(2) Procurement Processes

Agency procurement processes covering both internal/administrative procurement and procurement by recipients include written standards based on widely recognized processes and an internal control framework to protect against fraud, corruption and waste.

- a. Specific directives at the agency promote economy and efficiency in procurement through written standards and procedures that specify procurement requirements, accountability and authority to take procurement actions.
- b. Specific procurement guidelines are in place with respect to different types of procurement managed by the agency, such as consultants, contractors and service providers.
- c. Specific procedures, guidelines and methodologies of assessing the procurement procedures of beneficiary institutions are in place.
- d. Procurement performance in implemented projects is monitored at periodic intervals, and there are processes in place requiring a response when issues are uncovered.
- e. Procurement records are easily accessible to staff, and procurement policies and awards are publicly disclosed.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>a. Yes. The Bank has adopted the Framework for the Organization of the Procurement Function in Bank-financed projects. It includes a conceptual framework of the procurement function and also addresses issues involving delegation of authority, procedures and detailed instructions. The general objective of the document is to ensure that "developmental, fiduciary and service functions be performed at the highest professional and integrity standards." The document seeks, among others, to: 1) define responsibilities and accountability for procurement decisions; 2) increase such decisions' quality and consistency at all levels in the Bank. The Framework Document also seeks to clarify the responsibilities of the various parties involved, whether in the Country Offices or in Headquarters.</p> <p>As mentioned in the Introductory Section of the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank, according to</p>	<p>Framework for the Organization of the Procurement Function (GN-2306-6), Section 1.1, p.1</p> <p>Ref. GN-2306-6 at Section 1.2, p. 1, Section 1.3, p. 1</p> <p>Policies for the Procurement of Goods and Works financed by the Inter-American Development Bank (GN-2349-7; Appendix 1, p.30)</p> <p>Policies for the Selection and Contracting of</p>

Inventory of Current Organizational Environment	Documentation References
<p>the by-laws of the Institution provide that the Bank is required "to take the necessary measures to ensure that the proceeds of any loan made, guaranteed, or participated in by the Bank are used only for the purposes for which the Loan was granted, with due attention to considerations of economy and efficiency." Accordingly, the Procurement Policies of the Bank seek to ensure that procurement activities are conducted in accordance with four core principles: 1) economy and efficiency; 2) equal opportunity to all eligible bidders; 3) development of domestic contracting; and 4) transparency.</p> <p>b. Yes. The Procurement Policy for Goods and Works outlines the various selection methods among which the Borrower can choose for the procurement of goods and works. Each method contemplates quality, cost and timely completion as core principles for the management of the procurement cycle. In the Selection and Contracting of Consulting Services, five main considerations must be observed: 1) high-quality of the services provided; 2) economy and efficiency; 3) equal competition among the eligible consultants (whether firms or individuals); 4) development and use of national consultants; 5) transparency. The Borrower may choose the most appropriate method of selection as defined in the policy.</p> <p>c. Yes. In addition to these two mechanisms, the Bank conducts an evaluation of the institutional capacity of the beneficiary institutions. This evaluation is made during the preparation of the project and seeks to establish whether the Beneficiary Institution has the structural capacity to implement a project financed by the Bank. The analysis focuses, in part, on whether the beneficiary institution has the capacity to implement the Bank's procurement policies. Further, the review of the Procurement Plan also allows the Bank to assess the way in which the beneficiary institutions apply the procurement procedures. It is prepared by the Project Teams and then subjected to review by the Operations Procurement Office. It covers an initial period of at least 18 months. It should (among others): 1) be structured in a way that it corresponds to the objectives of the project and establish a critical roadmap; 2) list the goods, works and services that will be purchased during the life of the contract.</p> <p>d. Yes. The Procurement Policy for Goods and Works contains a Section specifically addressing the issue of the Review of Procurement Decisions by the Bank. The Bank foresees two types of reviews: a review ex-ante and an ex-post review. Depending on</p>	<p>Consulting Services financed by the Inter-American Development Bank (GN-2350-7).</p> <p>Procurement Plans (Examples available at http://condc05.iadb.org/idbppi.aspx/ppProcurement.aspx?pLanguage=ENGLISH)</p> <p>IDB Project Procurement Manual (PP-321, Appendix 7)</p> <p>For <i>Corporate Procurement matters</i>, please see:</p> <p>Administrative Manual –401 in Bank Administrative Manual for Corporate Procurement Policy Approved by the Board; 401-1 for End -User Procedures</p> <p>Corporate Procurement Website http://www.iadb.org/corproc/index.cfm</p>

Inventory of Current Organizational Environment	Documentation References
<p>the level of risk involved in the project under scrutiny, the Bank will either conduct an ex-ante review or an ex-post review. When using a ex-ante review, the Bank assesses the procurement procedures at each step of the procurement process. Based on its findings, it will give its "no-objection", or not. When conducting an ex-post review, the Bank will examine all project-related documentation seeking to establish whether the project was implemented in accordance with the Bank's Procurement Policies. In the latter form of evaluation, should the Bank find that the project was not implemented in accordance with its policies, it may declare misprocurement. The above-mentioned procedures allow the Bank to conduct an assessment of the procurement procedures of the beneficiary institutions.. Equally, the Policy for the Selection and Contracting of Consulting Services contains a Section addressing the issue of the review, by the Bank, of the Selection of Consultants. The conditions under which such review should be conducted are identical to those detailed above. Moreover, project procurement planning takes into consideration an evaluation of the executing unit's capacity to carry out the procurement processes involved at the design stage of the projects. The evaluation determines if the executing agency would benefit from training in its weak areas and how the strengthening would progressively allow the supervision from the Bank to move to ex-post. The procurement plan is updated annually and reflects the progress in capacity vs. supervision modality by the Bank agreed with the Borrower for procurement execution.</p> <p>Furthermore, according to IDB project Procurement Policies, all loan operations must have been approved with a procurement plan. All procurement involved should be implemented as approved in the plan or as updated yearly throughout the duration of the project's execution. IDB reviews national industry and sectors capacity in order to update country thresholds that establish different methods for procurement financed by the Bank. It is worth noting that IDB project Procurement Policies detail all the stages of control of due process of procurement involved in accordance to the Procurement Plan either on an ex-ante basis or ex-post. IDB is accountable for these controls and it monitors these controls as part of the tasks assigned to Sector and Procurement Specialists. Executing Agencies monitor control in IDB-financed procurement processes to comply with IDB's Procurement Policy.</p> <p>The Borrower, the Project Team, and the Procurement Specialist in IDB HQ have access to procurement information. The IDB project Procurement Policy states, Borrowers must</p>	

Inventory of Current Organizational Environment	Documentation References
<p>retain all supporting documentation for each procurement process in a proper filing system. The executing agency will give access to Bank staff and auditors to all documents and records related to the procurement process as well as to the subsequent administration of the respective contracts. These documents and records constitute indispensable elements by which the Bank can verify the eligibility of a contract or of other expenses finance by the IDB. Procurement records are disclosed in accordance with the Bank Disclosure Policy.</p>	

II. Description of area(s) in which agency does not meet this standard, and description of agency's monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall
<p>None. The IDB meets all requirements regarding this standard</p>	

(3) Monitoring and Project-At-Risk-Systems

The GEF monitoring and evaluation policy, adopted by Council in February 2006, establishes minimum requirements based on widely recognized, best practice norms and standards for monitoring in the GEF. From a fiduciary perspective, the monitoring function detects, assesses, and provides management information about risks related to projects and/or activities, particularly those deemed to be at risk.

- a. Monitoring functions, policies and procedures consistent with the requirements of the GEF monitoring and evaluation policy have been established.
- b. The roles and responsibilities of the monitoring function are clearly articulated at both the project/activity and entity/portfolio levels. The monitoring function at the entity/portfolio level is separated from the project and/or activity origination and supervision functions.
- c. Monitoring reports at the project/activity level are provided to project/activity manager as well as to an appropriately higher level of oversight within the organization so that mid-course corrections can be made, if necessary. Monitoring reports at the entity/portfolio level are provided to both project/activity managers and to an appropriately higher level of oversight within the organization so that broader portfolio trends are identified, and corresponding policy changes can be considered.
- d. A process or system, such as a project-at-risk system, is in place to flag when a project has developed problems that may interfere with the achievement of its objectives, and to respond accordingly to redress the problems.
- e. Adequate oversight procedures are in place to guide the project risk assessment process and to ensure its quality and monitoring of follow-up actions during implementation. This process or system is subject to independent oversight

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>a. Yes. The Bank uses a Project Performance Monitoring Report (PPMR) which:</p> <ul style="list-style-type: none"> Was introduced in the Bank in 1997 for loan operations and in 2003 for non-reimbursable technical cooperation (NRTC). Its main elements are drawn from the Logical Framework, which is a management tool that is used to improve the design of development interventions mostly at the project level. The Log frame involves the identification of strategic elements (inputs, outputs, outcomes, and impacts) and 	<p>Improving Project Design and Supervision: Resource Handbook for Logical Frameworks and PPMRs (ref pg 12, 17,133/)</p> <p>The new project cycle – Principles and guidelines (CS-3734), September 2007</p> <p>CO-303 Project Performance Monitoring</p>

Inventory of Current Organizational Environment	Documentation References
<p>their causal relationships, indicators, and the assumptions and risks that may influence success and failure. It thus facilitates planning, execution and evaluation of a development intervention.</p> <ul style="list-style-type: none"> • It is the result of a dialogue between the main stakeholders and executing agency during project preparation and execution. • Emphasizes the project's most direct results—outcomes at the purpose// development objective level and outputs at the component level. • Supports the monitoring and classification of the assumptions included in the Logical Framework. • Classifies the project performance in terms of Implementation Progress, the achievement of the project's outputs at the components level, and achievement of the development objective (Outcome). • Provides performance classifications that are realistic (not overly optimistic), reliable, and based on verifiable information. • Identifies issues requiring corrective action and encourages the preparation of Action Plans to solve current problems. • Facilitates the collection of lessons Learned during execution <p>Project teams use the methodology of the SMART Objective in the Logical Framework, which captures in an unambiguous and clear statement the intended/- anticipated result of the project at the levels of the Goal, Purpose and Components.</p> <p>A SMART Objective is:</p> <ul style="list-style-type: none"> • Specific (describes concrete actions and results) • Measurable (its achievement can be demonstrated) • Achievable (can be achieved within the given budget & context) • Relevant (must speak to the results that are expected) • Time-bound (must be achieved in a defined timeframe). <p>b. Yes. The roles and responsibilities of the monitoring function are clearly articulated at both the project/activity and entity/portfolio levels. The monitoring function at the entity/portfolio level is conducted by the Portfolio and Financial Management Unit (PFM) of the Bank. According to the organization chart, the Portfolio and Financial Management Unit (PFM) is an integral part of the Vice Presidency for</p>	<p>Report (FLD-25) (ref pg 3/)</p> <p>Inter-American Development Bank - Organization Manual (OR-BAS Basic Organization) July 2007</p> <p>Organizational Function Chart</p>

Inventory of Current Organizational Environment	Documentation References
<p>Countries to which reports directly to the Executive Vice President and President and, as such, is independent of the project team who performs the monitoring function at the project/activity level.</p> <p>PFM's functions include:</p> <ul style="list-style-type: none"> • Responsibility for corporate reporting on portfolio performance and management at all levels. • Maintenance of portfolio information systems, checking data integrity and comparability, and proposing mechanisms for access by borrowers. • Providing guidance to staff charged with project preparation and execution via statistical analysis of portfolio information on results frameworks and risk management. • Updating information requirements for borrowers to reduce transaction costs while providing key information for decision-making regarding results of the Bank's intervention. • Identifies mechanisms to track corporate targets across country portfolios and generating corresponding reports. <p>c. Yes. As far a project monitoring in/during the project cycle, as clear definition of basic project performance parameters is essential for effective project monitoring. Project teams and borrowers need to clearly establish basic project parameters (project objectives, components, assumptions, and performance indicators) during project preparation (for the Project Concept Paper (PCP) and MIF Analysis Mission Report) and specified in the Logical Framework (see CO-303 Appendix 4). Project Teams are required to ensure that such parameters are included in the Bank's legal agreements with borrowers, as needed. Prior to project approval, Sector Departments require that the project team, led by the project team leader, complete the initial Project Performance Monitoring Report (PPMR), prior to project approval by the Board.</p> <p>A project is considered active and is automatically included in the PPMR as soon as it has been approved by <i>the Board of Executive Directors</i>. This means that even recently approved projects must be incorporated into the PPMR system and rated. Project teams are required to update PPMRs at a minimum twice a year</p>	

Inventory of Current Organizational Environment	Documentation References
<p>Performance indicators are tailored to each individual project, spelled out in project documents, and monitored during the life of project.</p> <p>d. Yes. The Project Alert Identification System (PAIS) is an additional project monitoring mechanism that goes beyond the ratings provided through the PPMR system, by using a set of complementary indicators based on objective information from the Bank's corporate database. Under the PPMR system there are three important definitions to consider:</p> <p><i>Normal Projects (the majority)</i>, which are those operations classified as being likely to achieve their development objectives (DO ratings of Probable or Highly Probable), are experiencing no significant execution problems; (IP ratings of Satisfactory or Very Satisfactory) and have favorable enabling conditions (Assumptions rated as High).</p> <p><i>Problem Projects</i> are a much smaller group of operations that have been classified as being unlikely to achieve their development objectives (DO ratings of Low Probability or Improbable), irrespective of the IP and Assumptions ratings.</p> <p>In addition, there is a third group of projects, the group on "<i>Alert Status</i>", which consists of projects that are classified as being expected to achieve their development objectives, but which are currently experiencing problems with execution and/or enabling conditions, or which otherwise exhibit characteristics of projects that have a greater likelihood of becoming problematic in the future. As employed in the Bank's project monitoring system, these three kinds of "Alert Status" projects are mutually exclusive.</p> <p>As its name indicates, PAIS is geared towards alerting the Bank about projects that are not yet formally ranked as problematic, but exhibit characteristics that place them as on "alert status" of becoming problem projects, and therefore need to be monitored carefully for prompt remedial action. These characteristics were statistically tested and found to significantly increase the likelihood of projects becoming problematic.</p>	

Inventory of Current Organizational Environment	Documentation References
<p>Projects on "alert status" are those that are considered to be on track to achieve their development objectives but are either a) rated unsatisfactory or very unsatisfactory in terms of implementation progress, b) rated low in their assumptions or c) flagged as having 2 or more indicators of potential problems. A set of eight indicators were specifically developed for <u>investment projects</u> to complement information from the PPMR system:</p> <ol style="list-style-type: none"> 1. Period from date of legal effectiveness equal to or greater than 3 years with less than 25% disbursed for projects that have already reached eligibility. 2. Period from date of legal effectiveness equal to or greater than 5 years with 25% to 75% disbursed. 3. Time elapsed to achieve first eligibility (from contract signature date or ratification date as required) equal to or greater than 12 months. 4. Less than 10% of opening balance disbursed over the past twelve months for projects that have reached first eligibility for 3 or more months. Opening balance refers to the available balance twelve months prior. 5. Time elapsed to the date of legal effectiveness (approval to contract signature) equal to or greater than 11 months (in countries <u>not</u> requiring preauthorization for contract signature and/or ratification). 6. Time elapsed to the date of legal effectiveness (approval to ratification) equal to or greater than 17 months (in countries requiring preauthorization for contract signature and/or ratification). 7. Extensions for final disbursement date greater than 24 months. 8. Presentation of audited financial statements that are overdue for six months or more. <p>e. Yes. Projects are monitored for changes in risk during execution. Findings are reflected in the PPMR and in the Project Alert Identification System (PAIS) for projects considered at risk. There are ongoing official and less formal reviews conducted; PPMR quality reviews are conducted every semester and Ratings Validation Missions are undertaken by the Portfolio Management Unit (See the answer to question "b", above). Furthermore, the Bank's Office of Evaluation also conducts independent oversight, reporting directly to the Bank's Board.</p>	

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II. Description of area(s) in which agency does not meet this standard, and description of agency’s monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall
None. The IDB meets all requirements regarding this standard	

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(4) Evaluation Function

The evaluation function assesses the extent to which projects, programs, strategies, policies, sectors, focal areas, or other activities achieve their objectives. The goals of evaluation are to provide an objective basis for assessing results, to provide accountability in the achievement of agency objectives, and to learn from experience. The GEF monitoring and evaluation policy, adopted by Council in February 2006, establishes minimum requirements based on widely recognized, best practice norms and standards for monitoring in the GEF, including impartiality, professionalism, and a high degree of independence.

- a. Independent evaluations are undertaken by an established body or function as part of a systematic program of assessing results, consistent with the requirements of the GEF monitoring and evaluation policy.
- b. The evaluation function follows impartial, widely recognized, documented and professional standards and methods.
- c. The evaluations body or function is structured to have the maximum independence possible from the organization's operations, consistent with the structure of the agency, ideally reporting directly to the governing board. If its structural independence is limited, the evaluations body or function has transparent reporting to management and /or the governing board.
- d. An evaluation disclosure policy is in place. Evaluation reports are disseminated as widely as possible, and at a minimum to all parties directly or indirectly involved with the project. To enhance transparency, to the extent possible, reports are available to the public.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>a. and b. Yes. The IDB has two units with evaluation responsibilities, the Office of Strategic Planning and Development Effectiveness (SPD) – responsible, among other things, for setting quality standards and safeguards for both the design and the implementation of the Bank's products; for monitoring and ensuring compliance with standards and safeguards; and for producing progress reports on development effectiveness – and the independent Office of Evaluation and Oversight (OVE). OVE follows the guidelines established by the Evaluation Cooperation Group (ECG), which aim to standardize evaluation methods in multilateral development banks. OVE has the mandate to conduct Country Program Evaluations (CPE); policy, strategy, thematic and instrument evaluations; and to oversee the Bank's internal</p>	<p>Inter-American Development Bank - Organization Chart, January 2005 (pg ref 1/) and OR-SPD.</p> <p>Codes for Project Evaluability Assessment Tool (5/16/2001), pg.1, and Protocol for the conduct of country program evaluations. Revised version (RE-271-1, 4/30/2003).</p> <p>Office of Evaluation</p>

Inventory of Current Organizational Environment	Documentation References
<p>monitoring and evaluation system, processes and instruments. Moreover, OVE conducts oversight reviews of corporate strategy, processes and instruments; provides normative guidance on evaluation issues; and contributes to evaluation capacity building in the region. In 2003, OVE began conducting ex-post project evaluations as well.</p> <p>The Bank's Project Evaluability Assessment Tool is organized into nine key areas deemed necessary to ascertain evaluability. For each of these key areas, the instrument includes a set of characteristics that provide further specification and clarity to each of these areas. The extent to which a project's evaluability can be ascertained will depend on the presence or absence of the characteristics listed for each of the key areas defined in this instrument. Evaluability ratings for each of these key areas have been defined in terms of a ten-point scale ranging from low to excellent. OVE also has a defined protocol for Country Program Evaluations. Evaluation is focused on institutional learning. Lessons discovered from evaluation work become relevant only when the institution learns from the work and changes future behavior accordingly;</p> <p>c. Yes. OVE is independent of Bank Management. It has organizational and behavioral independence, and is free from external pressure and conflicts of interest according to the criteria established by the Evaluation Cooperation Group of the Multilateral Development Banks (ECG), of which the IDB is a founding member. OVE's findings, analyses, and conclusions are free from influence by line management at all stages of the process, including the planning of work programs and budget, formulation of terms of reference, staffing of evaluation teams, execution of evaluations and approval of reports. OVE reports solely and directly to the Board of Executive Directors.</p> <p>d. Yes. All OVE documents are, by policy, made available to the public after the Board of Executive Directors has completed its consideration of them. Restrictions may apply, however. Only summaries are disclosed if the borrowing member country objects to disclosure of a Country Program Evaluation. In that case, information deemed confidential and sensitive will be redacted and a notation will be placed as to what section was redacted. In addition, written comments on evaluations submitted by the country concerned or by the Bank's Management, if any, will be made publicly</p>	<p>Oversight.doc (ref pg 1/)</p>

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Inventory of Current Organizational Environment	Documentation References
available if the underlying evaluation is available.	

II. Description of area(s) in which agency does not meet this standard, and description of agency’s monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall
None. The IDB meets all requirements regarding this standard	

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C. Investigations**(1) Investigation Function**

The investigation function provides for independent, objective investigation of allegations of fraud and corruption in agency operations, and of allegations of possible agency staff misconduct.

- a. The investigations function has publicly available terms of reference that outline the purpose, authority, and accountability of the function.
- b. To ensure independence, the investigations function is headed by an officer who reports to the head of the agency and/or an oversight body, such as a committee of the board of directors or a comparable body.
- c. The investigations function has published guidelines for processing cases, including standardized procedures for handling complaints received by the function and managing cases before, during and after the investigation process.
- d. The investigations function has a defined process for periodically reporting case trends. To enhance accountability and transparency, to the extent possible, case trend reports and other information are made available to senior management and respective functional business areas.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>a. Yes. The purpose of the Office of Institutional Integrity ("OII") is outlined in its mandate, which includes investigating allegations of fraud, corruption and certain alleged violations of the Code of Ethics and Professional Conduct and related regulations and staff rules. The Office of Institutional Integrity ("OII") receives all allegations of fraud and corruption. Upon receiving the allegation, OII makes an initial determination whether the information available may concern an issue of fraud or corruption or whether it could be considered a case of misconduct. Internal allegations relating to staff misconduct are referred to the Committee of Ethics and Professional Conduct. OII has the authority to initiate a full investigation into allegations of fraud or corruption by external parties. Corresponding terms of reference are publicly available in</p>	<p>GA -214 7 November 2003 Creation of the Office of Institutional Integrity (relevant sections) 2.1 Under the authority delegated to Management to create units under the secondary organization of the Bank, Management approved the creation of the Office of Institutional Integrity (the "OII" or the "Office"), to combine into one central organizational structure the responsibility of</p>

Inventory of Current Organizational Environment	Documentation References
<p>the Bank's internet site.</p> <p>b. Yes. As a safeguard, all allegations received by the OII are initially reported to the Oversight Committee on Fraud and Corruption, which is composed of the President, Vice President of Finance and Administration, the General Counsel and the Auditor General.</p> <p>c. Yes. OII's 2006 Annual Report states that investigations are conducted pursuant to the Principles and Guidelines for Investigations endorsed by the International Financial Anti-Corruption Task Force.</p> <p>International Financial Institutions Principles And Guidelines For Investigations include rules related to the following:</p> <ul style="list-style-type: none"> a. Receipt of Complaints b. Preliminary Evaluation c. Case Prioritization d. Investigative Activity e. Case Disposition f. Referrals to National Authorities g. Measures to Prevent Unauthorized Disclosure of Investigative Information <p>OII has guidelines on how the Office does its investigative work including processes for internal and external allegations, proper reporting and sanctioning procedures with process narrative flows for each.</p> <p>d. Yes. OII's mandate states that the Office is responsible for coordinating with the Office of Evaluation and Oversight, the Office of the Auditor General and other Bank offices responsible for risk management and internal control functions.</p> <p>OII provides at least two comprehensive reports to the Audit Committee of the Board, every six month. One of these reports coincides with the Office's Annual Report. OII's Annual Report is a public document.</p> <p>Also, coordinates with other international financial institutions and international organizations to share experiences and practices to prevent corruption, and develop integrity programs and strategies.</p> <p>The OII issues an annual report which includes trend analysis of allegations including:</p> <ul style="list-style-type: none"> • Total inquiries received 	<p>receiving allegations and conducting all investigations required in the Bank group (IDB, IIC, MIF), essentially:</p> <ul style="list-style-type: none"> • the functions of fraud and corruption detection and investigation, as well as the duties of OCFC Secretariat; • the functions of conducting any required investigations pertaining to allegations of violations of the Bank's Code of Ethics. <p>OR/PRE IDB Manuals</p> <p>OII Mandate</p> <p>The office of Institutional Integrity</p> <ul style="list-style-type: none"> • Investigate allegations of fraud, corruption and certain alleged violations of the Code of Ethics and related regulations and staff rules. • Report on investigative findings and lessons learned and provide advice and recommendations arising from those findings to the President, senior management, and appropriate Bank committees. • Support the development and implementation of outreach and training activities to Bank staff and other relevant parties in order to disseminate lessons learned from investigative results and promote awareness of mechanisms, practices, regulations and policies that promote integrity and prevent fraud and corruption. • Support the improvement of

Inventory of Current Organizational Environment	Documentation References
<ul style="list-style-type: none"> ▪ Sources of allegations ▪ How allegations were submitted ▪ External vs. internal allegations ▪ Investigations opened & closed ▪ Types of investigations ▪ Outcome of investigations <p>OII uses a case management system (INTIS) to track reported allegations.</p>	<p>mechanisms, practices, regulations, and policies that promote an ethical working environment and enhance the integrity of the Bank's operations.</p> <ul style="list-style-type: none"> • Coordinate with the Office of Evaluation and Oversight, the Office of the Auditor General and other Bank offices responsible for risk management and internal control functions. • Serve as the Secretariat for the Oversight Committee on Fraud and Corruption. • Support the Bank's programmatic and lending activities that include anti-corruption and integrity components. • Coordinate with other international financial institutions and international organizations to share experiences and practices to prevent corruption, and develop integrity programs and strategies. • Report on significant findings with regard to matters of fraud and corruption to the Audit Committee of the Board of Directors and, as appropriate, to the Board at large and the Bank's external auditors. <p>Terms of Reference of the Audit Committee of the Board DR-569-2 13 August 2004</p> <p>Institutional Integrity Matters (relevant sections):</p> <p>18. In consultation with the Bank's President, participate in, review and concur with the</p>

Inventory of Current Organizational Environment	Documentation References
	<p>selection and removal of the Chief of the OII. The Chair of the Audit Committee or another member designated by him/her shall participate on the interview panel for short-listed candidates and keep the other Committee members informed throughout the selection process.</p> <p>19. Review the adequacy and effectiveness of the system for monitoring compliance with Bank policies and procedures on institutional integrity regarding matters dealing with fraud or corruption.</p> <p>21. Review and endorse provisions to ensure that the Bank has established and maintained appropriate, efficient and consistent procedures to protect confidentiality and anonymity in the receipt, retention and treatment of complaints and allegations submitted by Bank employees or others regarding fraud or corruption, including questionable accounting or auditing matters.</p> <p>22. Review, periodically, with the Chief of the OII significant activities and outcomes for this unit with regard to matters pertaining to fraud or corruption.</p> <p>23. Review the adequacy and effectiveness of the system of internal controls over the receipt, review, resolution, and reporting of procurement claims/protests and sanctions on bidders, executing agencies or any other third parties, and ensure that the process in place ensures efficiency, transparency, and fairness.</p>

Inventory of Current Organizational Environment	Documentation References
	<p>Additional Applicable Procedures for Investigations</p> <p>The Board of Directors adopted the Uniform Framework for Preventing and Combating Fraud and Corruption. This document includes a section with Guidelines for Investigations. Additional guidelines for investigations are included in the Guidelines for the Oversight Committee on Fraud and Corruption.</p> <p>The applicable procedure for sanctions to external parties is contained in CC-5960-2, Sanctions procedures in connection with Bank-financed projects. These Sanctions Procedures (“Procedures”) are to be followed by the Office of Institutional Integrity (“OII”), the Oversight Committee on Fraud and Corruption (“OCFC”), and the Sanctions Committee (“Committee”) in connection with the processing of allegations of fraud and corruption in relation to projects financed by the Inter-American Development Bank (“Bank”) (including an act of fraud or corruption in connection with procurement of the goods and administrative services of the Bank).</p>

II. Description of area(s) in which agency does not meet this standard, and description of agency’s monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall
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Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall
None. The IDB meets all requirements regarding this standard.	

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(2) Hotline & Whistleblower Protection

Agency policies provide avenues for reporting suspected ethics violations and protections for individuals reporting such violations.

- a. A hotline or comparable mechanism is in place to ensure the capacity to take in reports of suspected unethical, corrupt, fraudulent or similar activity.
- b. An intake function coordinates the reporting of hotline information, compliance and/or other business concerns from internal and external sources. The intake function maintains a certain level of autonomy from the investigations function.
- c. A whistleblower protection policy covering who is protected and defining protected disclosures (such as violations of law, rule or regulation, abuse of authority, gross waste of funds, gross mismanagement or a substantial and specific danger to public health and safety). The policy defines the standard of protection from retaliation (such as placing the burden on the agency to provide evidence that the involved official would have taken the same action absent the protected disclosure).
- d. Policies are in place to ensure confidentiality and/or anonymity, as requested, of whistleblowers or others making reports (such as by using appropriate hotline technology, and preserving anonymity in reporting processes).
- e. Procedures are in place for the periodic review of the handling of hotline, whistleblower and other reporting information to determine whether the process to protect these parties is in place and is effective.

I. Description of how agency meets this standard:

Inventory of Current Organizational Environment	Documentation References
<p>a. The Code of Ethics defines a whistleblower as any Bank employee who discloses information concerning allegations that other employees, executing agencies, contractors, or consultants may violate or have violated the Bank's policies or the laws of its member countries, or may take or have taken action which has caused or could cause harm to the Bank's mission or reputation. Staff Rule no. 328 Protection for Whistleblowers and Witnesses states that no employee shall be subject to reprisal as a result of having provided information to the designated authorities. A reprisal is an act of retaliation on the part of a staff member's colleagues, supervisors, or any other Bank officer carried out to punish a staff member for having provided such information.</p>	<p>The Code of Ethics of IDB (ref pg 13/)</p> <p>IDB Staff Rule no. 328 Protection for Whistleblowers and Witnesses (ref pg 1/-2/)</p> <p>http://www.iadb.org/integrity/contact.cfm#</p> <p>IDB's Investigation Process Guidelines (ref pg 1/-2/)</p>

Inventory of Current Organizational Environment	Documentation References
<p>b. Investigative guidelines and procedures are described in Section C (1).</p> <p>c. Yes, Staff Rule no. 328- Protection for Whistleblowers and Witnesses.</p> <p>d. The Integrity Portal on IDB's website outlines that reports can be made anonymously. IDB's Investigation Process Guidelines provides rules for keeping investigation information confidential including:</p> <ul style="list-style-type: none"> • The Bank fully protects the confidentiality of complainants • All staff involved in an investigation process are obligated to preserve and protect the confidentiality of the subject, the witnesses, and all other parties concerned • Any staff member who compromises the confidentiality of a complainant is subject to disciplinary action • The Bank accepts anonymous allegations. <p>e. Yes. The OII issues an annual report which includes <i>trend analysis</i> of allegations including:</p> <ul style="list-style-type: none"> • Total inquiries received • Sources of allegations • How allegations were submitted • External vs. internal allegations • Investigations opened & closed • Types of investigations • Outcome of investigations 	<p>Per d:</p> <p>Terms of Reference of the Audit Committee of the Board DR-569-2 13 August 2004</p> <p>21. Review and endorse provisions to ensure that the Bank has established and maintained appropriate, efficient and consistent procedures to protect confidentiality and anonymity in the receipt, retention and treatment of complaints and allegations submitted by Bank employees or others regarding fraud or corruption, including questionable accounting or auditing matters.</p> <p>Office of Institutional Integrity Annual Report 2006 (ref pg 9/-14/)</p>

II. Description of area(s) in which agency does not meet this standard, and description of agency's monitorable program to remedy any such shortfall, including specific target dates for implementation.

Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall
None. The IDB meets all requirements regarding this standard.	

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Area(s) of Shortfall	Description of Monitorable Program to Remedy Shortfall