ANNUAL REPORT OF THE CHAIRPERSON OF THE
BUDGET AND FINANCIAL POLICIES COMMITTEE 1 JULY 2019 – 30 JUNE 2020

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The Budget and Financial Policies Committee (BUFIPOL) met on 27 occasions between 1 July 2019 and 30 June 2020. Of these, three were informal meetings and 12 were joint meetings held with other Board Committees: 5 with the Audit Committee and 1 with the Committee of the Board of Executive Directors of the IIC.

The Committee’s work on recurring topics focused primarily on the consideration and approval of the administrative budget, treasury activities, and the quarterly deliberation on the financial risk of the Ordinary Capital.

The nonrecurring topics reviewed by the Committee included the consideration and approval of the Financial Framework Partnership Agreement between the European Commission and the IDB. Other nonrecurring topics, such as the agreement between the IDB, IDB Invest, and the Caribbean Development Bank for Mutual Cooperation in the Caribbean Region, were considered and approved via streamlined procedure due to the obligatory telework mandated in response to the COVID-19 pandemic.

Based on strategic discussion and close collaboration with Management, the Committee approved the establishment of a Sovereign Guaranteed Portfolio Guarantee by the Swedish International Development Agency, an innovative risk transfer mechanism that will serve as a model for the development of similar tools in the future.

In addition, the Committee approved the establishment of the France-IDB Natural Capital Lab Trust Fund.

Lastly, with respect to financial matters, the Committee approved the termination the Intermediate Financing Facility.

**2020 Administrative Budget, Budget Execution, and Financial Programming**

*2020 Program and Budget Proposal (GA-274-1)*

BUFIPOL held a series of formal meetings in November 2019 to consider Management’s 2020 Program and Budget Proposal, contained in document GA-274-1. In advance of the proposal, on 15 October there was a presentation on the 2020 Program and Budget Outlook (document GA-274).

In addition, jointly with the Audit Committee, the Committee reviewed the Risk-based Audit Plan and Perspectives for 2021 (document GN-2979). Moreover, by streamlined procedure, the Committee reviewed the Office of Evaluation and Oversight’s (OVE) Proposed Work Program and Budget for the IDB Group (document RE-543-2) and the Independent Consultation and Investigation Mechanism’s Work Program and Budget (document MI-89).

Unlike on previous occasions, the Committee considered the 2020 Funding Request for Salary Increases (audiovisual presentation PP-1008) prior to the consideration of the 2020 Program and Budget proposal. This provided Directors with an opportunity to discuss and express their positions with regards to the 2020 proposed funding for salary increases at an early stage of the budget process formal budget deliberations.
Consistent with continuous efforts to enhance the budget discussion, in 2020, formal discussion began with Management presentations on the strategic context and work program areas of the 2020 Program and Budget Proposal. An overview of the budget was then presented by the Budget and Administrative Services Department.

On 21 November, a formal meeting was held to consider the Long-term Financial Projections 2020 Final document (document FN-721-1) in which Management put forward the long-term financial projections for the Bank for 2020 and its recommendation for setting the financing charges.

The budget discussion drew to a close with a wrap-up session summarizing the highlights of this series of meetings, details on the next steps, and an outline of Management’s Deliverables and Commitments for 2020.

As a final recommendation, the Committee submitted for approval by the Board a negative real increase in the administrative budget of -0.5% (1.5% nominal), taking into account the composite cost adjustment component (CCAC) of 2.0%; total financing for strategic development programs of US$102 million, which was amended to repurpose $5m under the Board-approved migration initiative; and a capital budget of US$59.5 million. As a consequence of the changes in the process and unlike previous years, the 2020 budget proposal was supported by all chairs.

2020-2022 Medium-Term Capital Budget Plan (GA-269-6)

On 2 October, the Committee considered the 2020-2022 Medium-term Capital Budget Plan (document GA-269-6). The Executive Directors expressed general agreement with the 2020-2022 Medium-term Capital Budget Plan and recognized the soundness of the prioritization methodology. The Committee recommended that the Board of Executive Directors approve the 2020-2022 Medium-term Capital Budget Plan and noted that the spending authorization related to the 2020 Capital Budget would be requested, as per practice, via a budget resolution in the 2020 Program and Budget Proposal.

2019 Program and Budget Execution Report as of 30 June 2019 and 31 December 2019 (documents GA-269-5 and GA-269-8)

The Committee welcomed the changes in format of the Budget Execution Report, which facilitated a better understanding of the link between the budget and strategic priorities, in line with efforts to better align the Institutional Strategy, and its associated Corporate Results Framework (CRF), to the Bank’s Results-Based Budgeting Framework.

Note was taken of the reports presented by Management and the comments from the Executive Directors.

The Executive Directors suggested that in future budget execution reports the visual data should be accompanied by a narrative and include more detailed information on: (i) major variances between the approved and executed budget; and (ii) lessons learned and priority areas of improvement for budget execution.

Long-term Financial Projections 2021 Preview Document (FN-727)

On 25 June, the Committee held a formal session to consider the Long-term Financial Projections 2021 preview document (document FN-727). The discussion offered the Directors an opportunity to provide input to Management for the 2021 Final LTFP document and was of particular
importance given the crisis resulting from the COVID-19 pandemic. The Executive Directors expressed their full support for the preparation of an Options Document, to be discussed by the Committee at the end of July, that would help strengthen the financial situation of the Bank.

Financial Policies

Proposal to Transfer the Assets and Liabilities of the Intermediate Financing Facility to the IDB Grant Facility and to Terminate the Intermediate Financing Facility. Revised version (FN-263-51)

The Committee considered the Proposal to Transfer the Assets and Liabilities of the Intermediate Financing Facility to the IDB Grant Facility and to Terminate the Intermediate Financing Facility (document FN-263-49). Management proposed the transfer of all assets and liabilities of the IFF to the GRF, terminating the IFF, and financing the subsidy payments from the GRF.

The Committee welcomed the proposal’s contribution to the effective management of resources without affecting the Bank’s commitments to Haiti and resolved to recommend that the Board of Executive Directors adopt the proposed resolution attached to the proposal.

Risk Management


The BUFIPOL Committee held four joint meetings with the Audit Committee to discuss the quarterly reports on the financial risk of the Ordinary Capital prepared by the Office of Risk Management (RMG). The Committee took note of the information provided in the financial risk reports.

While the situation during the 2020 first quarter changed significantly due to the COVID-19 pandemic, RMG confirmed that the Bank’s capital adequacy and liquidity ratios were strong.

In addition, Management presented an update (document GN-3005) in relation to the G20 communiqué regarding the Debt Service Suspension Initiative (DSSI).

2019 Bank and Corporation Contributions to Retirement Plans and Reaffirmation of Stable Contribution Rates per Long-term Funding Policy for the IDB Group Retirement Plans (GN-2599-54)

BUFIPOL, together with the Committee of the Board of Executive Directors of the IIC, agreed to recommend that the Board of Executive Directors approve the proposed contributions.

Treasury Results


Facilities and Funds

Proposal for the Establishment of the France-IDB Natural Capital Lab Trust Fund (GN-2970)

The Committee considered Management’s Proposal for the Establishment of the France-IDB Natural Capital Lab Trust Fund (document GN-2970), which would finance strategic and innovative operations that had a positive impact on the natural capital of Latin America and the Caribbean. The Committee supported the proposal and agreed to submit it, as presented, to the Committee of the Whole.

Proposal for the Financial Framework Partnership Agreement between the European Commission and the Inter-American Development Bank (GN-2605-5)

The Committee considered Management’s Proposal for the Financial Framework Partnership Agreement between the European Commission and the Inter-American Development Bank (document GN-2605-5), which proposed the amendment and restatement of the existing 2015 Framework Agreement between the European Union and the Inter-American Development Bank. The Committee supported the proposal and agreed to recommend to the Committee of the Whole the approval of the resolution annexed to document GN-2605-5.

Proposal for the Establishment of a Sovereign Guaranteed Portfolio Guarantee by the Swedish International Development Agency (GN-2989)

The Committee considered the Proposal for the Establishment of a Portfolio Guarantee by the Swedish International Development Agency (document GN-2989). In the proposal, Management requested authorization from the Board to enter into a Guarantee and Cooperation Agreement with the Swedish International Development Cooperation Agency (SIDA) to guarantee up to US$100,000,000 of the Bank’s sovereign-guaranteed loan portfolio risk exposure to Brazil in order to reduce sovereign credit risk and mitigate country concentration risk. In turn, the Bank would use the capital released by the guarantee to back $300,000,000 of new loans initially in Bolivia, Guatemala and Colombia in shared sectors and priorities.

The Committee agreed to submit the document to the Committee of the Whole for approval.

Proposal for the Agreement Between the Inter-American Development Bank, the Inter-American Investment Corporation, and the Caribbean Development Bank for Mutual Cooperation in the Caribbean Region (streamlined procedure) (GN-3006)

The Committee considered Management’s Proposal for the Agreement Between the Inter-American Development Bank, the Inter-American Investment Corporation, and the Caribbean Development Bank for Mutual Cooperation in the Caribbean Region via streamlined procedure (document GN-3006). The proposal replaced the 1977 agreement between the IDB and CDB and thus to facilitate broader cooperation between the IDB, IIC, and CDB, improving their coordination in making resources available for common development objectives in the Caribbean. The Committee supported the proposal and agreed to submit it, as presented, to the Committee of the Whole.

Proposal for the Distribution of the Administrative Fee of the Phase II: Low-Carbon Agriculture for Avoided Deforestation and Poverty Reduction Fund (GN-3011)

The Committee considered Management’s Proposal for the Distribution of the Administrative Fee of the Phase II: Low-Carbon Agriculture for Avoided Deforestation and Poverty Reduction Fund
via streamlined procedure. The proposal sought the Board’s authorization to distribute the administrative fee that will be received by the IDB from Defra for the LCA Phase II among the relevant departments for which additional workload is generated by the LCA Phase II. The Committee supported the proposal and agreed to submit it, as presented, to the Committee of the Whole.

**Conclusion**

I would like to extend special thanks to my colleagues in the committee, whose dedication and collaboration was essential to carrying out the Committee’s extensive work program during this term.

A special thanks to the entire Management team, in particular to Vice President Claudia Bock-Valotta, who worked relentlessly to identify ways to address the concerns of the directors regarding to the budget process. And to Diego Murguiondo, Gustavo de Rosa, Federico Galizia, Sikander Daryanani, and their teams. Their tremendous professionalism and commitment helped the Committee to reach essential agreements for the proper functioning of the institution.

I would like to thank Pedro Auger for his excellent work as Committee Secretary; Carmen Comin, for her efficiency in planning the work program; Robert Olney and Oriana Bonfim, for the quality of the minutes they prepared; and Miguel Empis and all our colleagues in the Bank’s Office of the Secretary. I would also like to give special recognition to the Translation and Interpretation teams, whose efforts were essential to the Committee’s work.

Lastly, I would like to thank our office team: the excellent support of Artur Lacerda, Guiomar Menezes and Cristina Velasquez, the Counselor, and assistants for the chair, respectively.