LEADING INTEGRITY EFFORTS FOR 15 YEARS

Office of Institutional Integrity and Sanction System

2017 Annual Report

IDB

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ACRONYMS

ACPC	Anti-Corruption Policy Committee
ADB	Asian Development Bank
AfDB	African Development Bank
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
AUG	Office of the Executive Auditor
EBRD	European Bank for Reconstruction and Development
EA	Executing Agency
EIB	European Investment Bank
FATF	Financial Action Task Force
IACC	International Anti-Corruption Conference
IDB	Inter-American Development Bank
IDD	Integrity Due Diligence
IFC	International Finance Corporation
IFI	International Financial Institution
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
IRR	Integrity Risk Review
MDB	Multilateral Development Bank
MIF	Multilateral Investment Fund
NAA	Notice of Administrative Action
OECD	Organization for Economic Co-Operation and Development
OII	Office of Institutional Integrity
ORP	Office of Outreach and Partnerships
PCU	Project Coordinating Unit
ROI	Reports of Investigation
RTS	Request for Temporary Suspension
SG	Sovereign Guaranteed
SLA	Service Level Agreement
SNC	Sanctions Committee
SO	Sanctions Officer
SOC	Statement of Charges
TFFP	Trade Finance Facilitation Program
UN	United Nations
WBG	World Bank Group

Foreword by The President of the Inter-American Development Bank,

Luis Alberto Moreno

In the context of a region with a growing demand for more integrity and transparency and in the face of a reality in which the challenges are increasingly complex, the mechanisms that the IDB Group has to ensure that its resources are utilized according to the highest possible standards of ethics and transparency and that its staff uphold compliance with these standards, take on the utmost importance.

Preserving integrity in our operations is a priority for the IDB Group. With this report, we commemorate 15 years since the Office of Institutional Integrity (OII) was created with the mandate to reduce integrity risks in the projects we finance. Complementing this effort, in 2011 the IDB created the Office of the Sanctions Officer and the Sanctions Committee, thus constituting the current Sanctions System of the IDB Group.

Since then we have vastly improved the systems that identify, evaluate and mitigate integrity risks, and also have made significant advances in our investigations into fraud and corruption. These efforts reduce the IDB Group's exposure to integrity risks and their reputational impacts, transmit the message of our commitment to transparency and increase the risk to individuals and companies that decide to participate in corrupt acts.

We have also worked to promote a culture of integrity in the management of the activities we finance, both in the public and private sector. For this, we have promoted actions aimed at strengthening the capacity of our staff and of our partners in client countries on issues relating to the prevention of corruption, fraud and other prohibited practices. In the IDB Group, we strongly believe that to advance in the fight against corruption we must take coordinated and unified actions to maximize our efforts and resources; therefore, during the past 15 years, we have strengthened collaboration on integrity issues with the Multilateral Development Banks (MDBs) and other international organizations.

The signing and implementation of the Agreement for Mutual Enforcement of Debarment Decisions with four other MDBs have contributed to increasing the impact of our sanctions and their adverse effect on the reputation of the companies and individuals who are sanctioned for the commission of prohibited practices. The mutually recognized sanctions, combined with a greater exchange of information and coordination of investigations, have facilitated the prevention, detection, and deterrence of acts of corruption with greater effectiveness.

While we should recognize that we have made significant progress, we are aware that we still have a long way to go, and therefore the integrity mechanisms of the IDB Group should continue to evolve along with the events that are taking place in the region. To achieve the enormous potential that we have as a region and for development to be more inclusive, we must redouble our anti-corruption efforts, deepen the reforms we initiated and strengthen our commitment to integrity.

PART I

ENHANCING INTEGRITY IN DEVELOPMENT PROJECTS

1 THE ROLE OF INTEGRITY IN DEVELOPMENT

1.1 The IDB and IDB Invest[1], combined, approve on average more than US$12 billion[2] in funding every year for new loans and guarantees, non-reimbursable investments, equity investments and technical assistance throughout their member countries in Latin America and the Caribbean for development projects that seek to achieve sustainable growth and to improve lives in the region.

1.2 The IDB Group, comprised of the Inter-American Development Bank, the Multilateral Investment Fund (MIF) and IDB Invest, takes steps to maximize the efficiency and effectiveness of its operations through the implementation of rigorous standards and safeguards designed to ensure that development resources reach the intended beneficiaries. As part of the institutional reforms resulting from the IDB Group's Ninth General Capital Increase (GCI-9), the Group has moved to improve efficiency and effectiveness by measuring and monitoring its contributions to the region under the Corporate Results Framework (CRF)[3]. Through the CRF, the IDB Group[4] measures country development results by monitoring indicators such as the number of beneficiaries of targeted anti-poverty programs, households with new or upgraded access to sanitation or safe drinking water, kilometers of roads built or upgraded, and beneficiaries receiving health services, to name a few.

[1] In November 2017, the Inter-American Investment Corporation (IIC) launched the new brand "IDB Invest." The term IDB Invest is used throughout this report, even when referring to actions and decisions taken prior to the referenced re-branding.

[2] During the past five years (2013-2017), annual funding approvals averaged $10.5 billion for IDB and $2.7 billion for IDB Invest.

[3] The Corporate Results Framework (CRF) is the keystone within the Inter-American Development Bank Group's (IDBG) managing for development results architecture. The CRF serves as the primary tool for monitoring and measuring the organization´s performance and the achievement of its strategic objectives. For more information see: www.iadb.org/CRF2016-2019-indicators

[4] As one of the commitments within the Strategy is to improve coordination between private and public sector operations through the Renewed Vision for the Private Sector, the CRF 2016-2019 has been designed in such a way as to capture the contributions made to each of the Strategy's priority areas by not only the IDB, but also the IDB Invest and the Multilateral Investment Fund (MIF).

1.3 Achieving these development objectives requires effective group effort and effective controls. In fact, the IDB Group's development projects involve a wide array of interdependent actors that includes beneficiaries, contractors, supervisory firms, government entities, private sector partners, co-financiers and IDB Group employees. Weak links in controls can reduce efficiencies and put entire projects at risk, causing poor development results in the IDB Group's client countries.

1.4 To address potential weaknesses in controls, the IDB Group has put in place an extensive set of policies, best practices, and specialized mechanisms aimed at ensuring that development projects function with integrity and are free from fraud and corruption. These preventive approaches help to identify and manage integrity risks in IDB Group operations and differ somewhat based on the type of operation and the probable risks.

1.5 Interventions focused on integrity first appeared in 2001 in the Board-approved report, "Strengthening a Systemic Framework against Corruption for the Inter-American Development Bank"[5] (Systemic Framework). The early adoption of an anti-corruption framework, which soon after led to the creation of the Office of Institutional Integrity (OII) and a sanctioning regime that later evolved into the current Sanctions System[6], has positioned the IDB Group and its sister MDBs as frontrunners in the arena of integrity in development.

1.6 With the creation of OII in 2003[7], the IDB Group acknowledged and continues to act on the reality of fraud and corruption in development projects that inhibits development effectiveness in the Latin American and Caribbean (LAC) region and worldwide.

1.7 Today the Bank's integrity risk management approaches are tailored to the nature of the IDB Group-financed operations. For sovereign guaranteed (SG) loans financed by the IDB and granted to national and subnational governments and other SG borrowers, OII centers its efforts on strengthening the institutional arrangements in agencies implementing IDB-financed operations and their capacity to prevent bidders, suppliers, contractors, consultants or other participants in these programs from engaging in prohibited practices or other unethical behaviors. For IDB Invest, which generally provides financing to private sector entities, these risks are managed principally through conducting integrity due diligence of potential counterparties. The integrity due diligence process is overseen by OII, which provides significant support to IDB Invest operations during both the design and execution stages. OII also advises relevant IDB units on application of integrity due diligence in their operations, partnerships and transactions.

[5] Strengthening a Systemic Framework Against Corruption for the Inter-American Development Bank (GN-2127-2), Inter-American Development Bank, February 15, 2001.

[6] The Sanctions System is an adjudicative system which addresses allegations of fraud and corruption in IDB Group activities. The first tier, the Sanctions Officer (SO), examines the allegations submitted by the Office of Institutional Integrity (OII), provides the investigative parties with an opportunity to present arguments and evidence, and determines whether a sanction is warranted. Determinations by the SO may be appealed before the Sanctions Committee, which acts as the second tier and final instance of the adjudicative process.

[7] Creation of the Office of Institutional Integrity (GA-214), Inter-American Development Bank, November 7, 2003.

IDB GROUP EFFORTS TO MANAGE INTEGRITY RISK ARE GROUNDED IN THE FOLLOWING DEFINITIONS OF PROHIBITED PRACTICES, HARMONIZED WITH OTHER MULTILATERAL DEVELOPMENT BANKS[8]

[8] Harmonized with the MDBs that are part of the Agreement on Mutual Enforcement of Debarment Decisions.

PROHIBITED PRACTICES

Fraudulent Practice:

Any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.

Corrupt Practice:

The offering, giving, receiving, or soliciting, directly or indirectly of anything of value to influence improperly the actions of another party.

Coercive Practice:

Impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party.

Collusive Practice:

An arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

PROHIBITED PRACTICE DEFINED BY THE IDB GROUP, NOT HARMONIZED AMONG MDBs

Obstructive Practice:

(a) Deliberately destroying, falsifying, altering or concealing evidence material to the investigation or making false statements to investigators in order to materially impede an IDB Group investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation; or

(b) Acts intended to materially impede the exercise of the Bank's inspection and audit rights.

1.8 In 2006, the IDB Group expanded its participation in the anti-corruption arena by signing on to the Multilateral Development Banks' (MDBs')[9] Uniform Framework for Preventing and Combating Fraud and Corruption, which paved the way for mutual recognition and enforcement of sanctions among the MDBs.

1.9 Well ahead of the corruption cases currently affecting the region, during the past 15 years, OII has responded to over 1,861 allegations of prohibited practices, resulting in the sanctioning of over 437 individuals and entities found to have committed prohibited practices in IDB Group development projects.

1.10 OII also has integrated its principles into IDB Group operations by providing critical integrity training and guidance before and during the implementation of sovereign and non-sovereign guaranteed operations in the region. This is achieved through OII's activities offering advisory services for managing potential integrity risks, building anti-corruption capacity and acumen at the operational level and ensuring adequate and appropriately adjusted responses to integrity gaps where they exist. Importantly, OII's preventive and investigative services have enabled the IDB Group to continue contributing to regional development with the assurance that integrity risks are mitigated appropriately throughout the development chain.

[9] Comprised of the African Development Bank Group, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank Group, the Inter-American Development Bank Group and the World Bank Group.

1.11 In this special edition of their annual report, OII, the Sanctions Officer (SO) and the Sanctions Committee (SNC) provide a detailed description of the evolution and current status of integrity and fraud and corruption risk management in IDB Group operations during the last 15 years (Part I). As in previous annual reports, OII and the Sanctions System also present information on their results during 2017 (Part II). Finally, the report offers thoughts on ways to move forward with the IDB Group's integrity agenda, including the role played by integrity in development, the evolution from a reactive stance to a more risk-based approach combating corruption and the acknowledgement of future challenges (Part III).

MDBs' Uniform Framework for Preventing and Combating Fraud and Corruption

In 2006, the leaders of the African Development Bank Group, Asian Development Bank Group, European Bank for Reconstruction and Development, European Investment Bank Group, the Inter-American Development Bank Group and the World Bank Group adopted a harmonized approach to integrity matters by signing the Uniform Framework for Preventing and Combating Fraud and Corruption (Uniform Framework). This Uniform Framework standardized the definitions of "Prohibited Practices" for which entities and individuals could be sanctioned.

This harmonization effort was further strengthened by the 2010 Agreement on Mutual Enforcement of Debarment Decisions (Cross-Debarment Agreement) signed by the MDBs, which paved the way for any entities or individuals sanctioned by one MDB to be subsequently excluded from participating in activities financed by all other MDBs. Cross-debarment raised the risks for entities considering engaging in corruption and other Prohibited Practices, generating a stronger deterrent effect. Since this agreement entered into force, the IDB has cross-debarred 748 individuals and entities.

The harmonized stance on integrity matters was the result of a task force that developed a consistent and standardized approach among MDBs to increase the effectiveness of each institution's efforts to combat corruption in their respective activities. Similar cooperation efforts among MDB sanctioning bodies are ongoing and aim to harmonize views to common issues where possible. The Secretariat of the Sanctions Committee attends every year the Annual Meeting of the MDBs' Sanctions Appeals Bodies. The meeting serves as a forum for sharing experience and discussing challenges and opportunities as well as strategies for further collaboration. The elements of the Uniform Framework continue to be developed by the MDBs, acting collectively and separately within each institution's own policies and procedures. As a result of these coordinated efforts, the MDBs and the European Investment Bank have aligned sanctioning guidelines and principles for the treatment of corporate groups.

[10] In 2017, the Asian Infrastructure Investment Bank (AIIB) announced that it will voluntarily enforce debarment decisions of other MDBs as part of its own sanctioning system, even though it is not a signatory to the Cross-Debarment Agreement. For more information see: https://www.aiib.org/en/news-events/news/2017/20170307_001.html

2 HISTORY OF THE INTEGRITY FUNCTION IN THE IDB GROUP

a. Key Developments

1996

Organization of American States adopted the Inter-American Convention against Corruption.

2001

IDB Board of Executive Directors adopted the report on "Strengthening a Systemic Framework against Corruption for the Inter-American Development Bank" (Systemic Framework).

IDB Invest adopted a Mechanism to Combat Fraud and Corruption.

2003

OII was created as part of the Office of the Presidency of the IDB to address and investigate increasing numbers of allegations of fraud and corruption.

2007

2007 and 2008 Revision of Systemic Framework by external consultants led by former US Attorney General Dick Thornburgh ("Thornburgh Recommenda-tions").

2009

IDB Board of Executive Directors and Management agreed on an action plan to implement the Thornburgh Recommendations.

2010

IDB Management adopted detailed guidelines and procedures for conducting integrity due diligence on non-sovereign guaranteed (NSG) operations (OP-474-1).

2011

IDB Management adopted, a guideline for identifying and managing risks related to the use of offshore financial centers in NSG operations. (OP-597-2).

2011

The Case Officer position was created and a Case Officer was appointed. The Sanctions Committee was created as an appellate body, with expanded membership and provided with a Secretariat to hear challenges of the recommended sanctions.

2011

The Cross-Debarment Agreement with the other MDBs took effect in the IDB Group.

IDB Invest Board of Executive Directors approved updated Framework to Prevent and Combat Fraud and Corruption, which established a formal link to IDB mechanisms, ensuring consistency across IDB Group activities.

2016

IDB Invest revised its Integrity Framework, making several changes including the establishment of a new element of integrity due diligence: a review of tax and related risks arising from the use of cross-border corporate structures.

b . Systemic Framework

1.12 The Systemic Framework[11] provided the IDB Group with a solid foundation for addressing the limitations on development caused by corruption. This framework was the result of sweeping changes in the anti-corruption field that started with the 1996 Inter-American Convention Against Corruption. Subsequently, policy-making and enforcement to combat corruption have evolved steadily with more commitments and broader international agreements, including the 1997 Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of the Organization for Economic Co-operation and Development (OECD) and the 2003 United Nations Convention Against Corruption (UNCAC).

1.13 The Systemic Framework emphasized the need to consider integrity in the design and execution of operations, but also recognized the need for a mechanism to address allegations of fraud and corruption in IDB Group-financed activities. To that end, the Office of the Executive Auditor (AUG) was initially charged with responsibility for carrying out investigations of such matters for the IDB Group. From the time the Bank adopted its Systemic Framework Against Corruption, the need to address the risks of potential vulnerabilities in the institution's operational activities has been given high priority.

1.14 Later, in 2003, the number of allegations related to fraud and corruption received by the IDB Group had reached a level that required a specialized unit responsible for addressing and investigating corruption charges and the Office of Institutional Integrity was created. In 2006, the Bank began to carry out integrity due diligence on operations with the private sector, and OII was mandated to oversee its implementation.

[11] Strengthening a Systemic Framework Against Corruption (GN-2117-2). Inter-American Development Bank, February 15, 2001.

“An ounce of prevention is worth a pound of cure”

Benjamin Franklin

3 CURRENT IDB GROUP APPROACHES TO INTEGRITY RISK MANAGEMENT:

a. Managing Risk in Sovereign Guaranteed Operations

1.15 The IDB defines integrity risk as the risk arising from third parties engaging in prohibited practices and behaviors such as theft, conflicts of interest, waste or misappropriation of resources, money laundering or tax avoidance.[12]

1.16 Even though the Bank has explicitly worked with a Zero Tolerance approach to corruption for the past 15 years,[13] the principles and procedures for preventing corruption in SG operations evolved over time, moving towards a more proactive, systematic and integrated risk management strategy that can serve as a tool for improving the Bank's development outcomes.

[12] Risk Taxonomy of the Inter-American Development Bank (GN-2547-13). Inter-American Development Bank, August 4, 2016.

[13] The IDB's Zero Tolerance has been clearly set forth in statements by the Bank's senior management since 2003 (See "Zero tolerance for corruption" and "President Luis Alberto Moreno reaffirms zero tolerance towards corruption") and in the 2008 Report Concerning the Anti-Corruption Framework of the Inter-American Development Bank (Thornburgh et al. 2008).

How the Bank addresses risk management

"Allegations of corruption should not paralyze the Bank's assistance, for then the Bank would be contributing to worsening the conditions for economic and social development. Instead, any potential concerns will result in a rigorous risk analysis and the establishment of preventive controls in Bank-financed projects."

Systemic Framework

1.17 For Sovereign Guaranteed (SG) operations, the focus of integrity risk management is to identify and correct weaknesses and vulnerabilities that could allow for members of executing agencies, bidders, suppliers, contractors, consultants or other participants in IDB Group-financed operations to engage in prohibited practices or unethical behavior. The objective is to prevent or minimize the negative effects, such as financial losses or reputational impact, of fraud and corruption on achieving the development goals of the projects.

1.18 Integrity Risk Management in SG operations is a collective responsibility of sector and fiduciary specialists and their supervisors and is embedded within the project management process. In this model, project teams are the first line of defense and OII serves in an advisory role for them and for the Bank's Management.

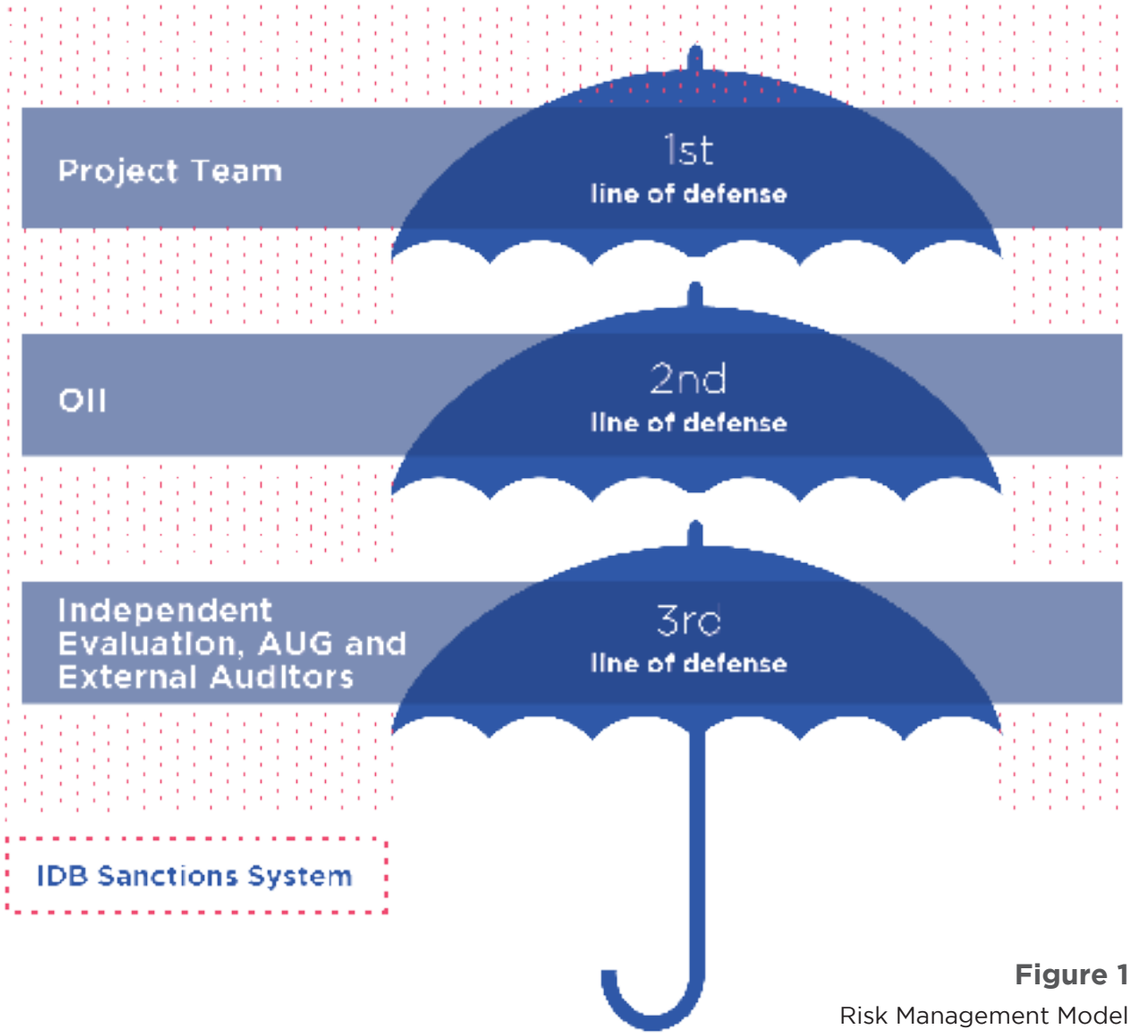


Figure 1
Risk Management Model

1.19 Corruption is, in most cases, the symptom of a deeper problem, and therefore requires an approach that targets not only the consequences but also the causes of misconduct. OII's response to the challenge of addressing the root causes of corruption is twofold.

1.20 On the one hand, we are aware that the IDB mission is to contribute to economic and social development in Latin America and the Caribbean, and in order to reduce poverty and inequality through its operations, the Bank needs to acknowledge and manage integrity risk. OII's preventive work aims to optimize the Bank's development results by helping operational units to reduce the likelihood that corruption, fraud and other prohibited practices occur in IDB-financed activities and to mitigate the potential negative impact of corruption on the reputation of the Bank and its programs. Acting before risk materializes or damage worsens allows for more efficient use of the resources allocated to programs. On the other hand, we also work to ensure that our actions have positive spillovers: we strive to contribute to the capacity of our development partners to manage that risk.

1.21 There is no silver bullet nor a "one-size-fits-all" recipe for managing integrity risk. Hence, OII believes that its strategy should be tailored to address the needs of each program. Exceptions are not made for particular projects; rather, the strategy is adapted in accordance with the nature of a project to ensure the development goals are met.

1.22 **OII also has a role as an advisor to Bank Management.** The Office drafts and updates integrity-related policies and procedures and regularly contributes comments on other Bank policies to ensure that integrity concerns are clearly articulated. OII also elevates to the appropriate decision-makers within the Bank, specific risks that may pose a high integrity impact to ensure that the institution's reputation and resources are protected.

In a nutshell, our efforts consist primarily of:

- advising project teams on specific operations;
- sharing lessons learned from investigations with operational staff;
- designing tools to gather and assess information that enables the identification of integrity risks; and
- contributing to the development of policies that enhance the Bank's ability to detect and reduce integrity risk.

b. Integrity Risk Management throughout the Project Cycle

1.23 Throughout the project cycle, OII guides project teams, when required, on the identification and assessment of integrity risks and vulnerabilities that may have an adverse impact on the Bank's efforts to achieve its development goals. Once the integrity risk is evaluated and there is agreement with project teams that mitigation is required, OII advises project teams on the design of practical and targeted measures to mitigate risk and correct vulnerabilities.

Building integrity into Bank projects

"...concern for the safe allocation of resources in the framework of project impact should be a common theme incorporated in all phases in the life of the Bank's projects, from the stages of identification and design of an operation, through its execution, and finally during its evaluation. Indeed, preventive controls for potential risks of corruption should be carefully and consistently distributed along all of these stages of the project."

Systemic Framework[14]

[14] Paragraph 3.2 of Systemic Framework (GN-2117-2).

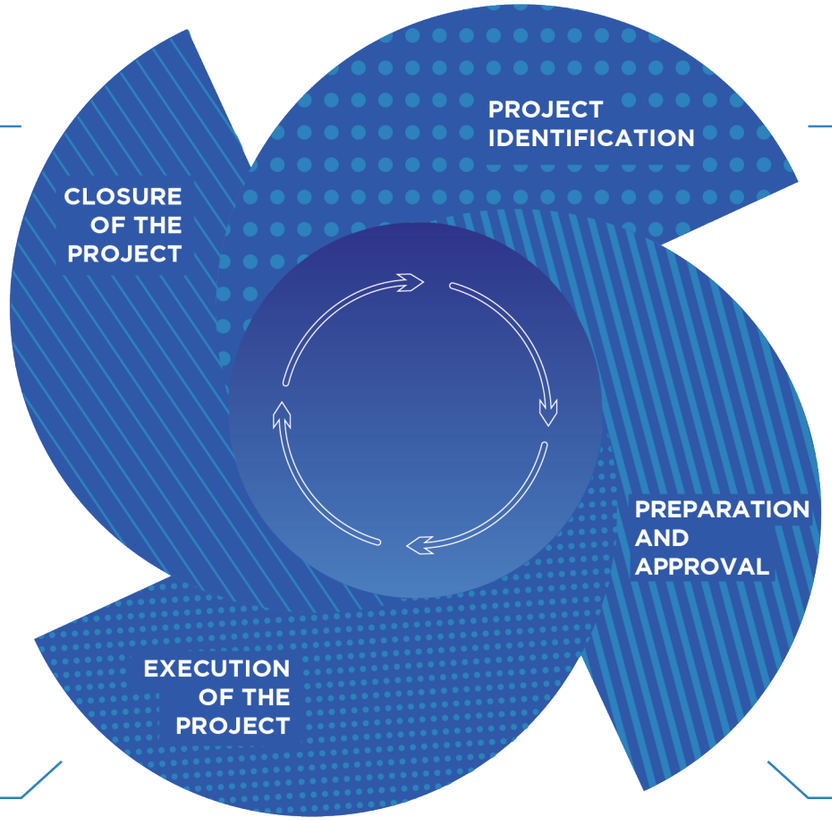
Figure 2

Tools to manage Integrity Risk throughout the Lifetime of the Project Cycle

1.24 At different stages of the project cycle, OII interacts with project teams through diverse channels of communication and tools (Figure 2).

- Lessons learned and recommendations as input for Project Completion Reports
- Case studies

- Formulation of risk mitigation measures
- Integrity Risk Reviews
- Trainings for capacity building of IDB Staff and Executing Agencies
- Input for supervision plans
- Drafting of contractual language and integrity clauses
- Advice on conducting due dilligence of suppliers/contractors
- Knowledge sharing of lessons learned



- Identification and assessment of risk
- Formulation of Risk mitigation measures
- Preparation of disclosure language

- Identification and risk assessment
- Input for operations manual
- Knowledge sharing of lessons learned

1.25 Additionally, regardless of the project stage and in seeking to create a virtuous cycle between the investigations it conducts and its preventive work, OII shares the lessons learned from its cases with operational divisions within the Bank and with our development partners through various tools such as Reports of Investigation, case studies and training materials.

1.26 The following is the approach OII follows to manage integrity risk in SG operations.

i. PROJECT IDENTIFICATION, PREPARATION AND APPROVAL

When OII receives information regarding potential integrity risks in a **project under preparation** it works together with the project team on assessing those risks and their potential impact to determine whether mitigation measures are necessary. OII and the project team agree on and approve recommendations to be incorporated into the design, institutional arrangements and/or execution mechanisms of the project.

ii. PROJECT EXECUTION

During project execution, OII uses the following approaches to support operational staff in managing and improving integrity risk in SG operations.

- **Consultations:**

OII responds to specific consultations from project teams and senior management and reaches out to operational staff when allegations or preliminary findings of investigations lead OII to make specific recommendations to improve integrity risk management. In specific cases when integrity risk is deemed high, OII staff may participate as a member of a project team to be able to adjust the mitigation strategy in real time and ensure that integrity matters are part of discussions concerning the program.

- **Lessons Learned and Advisory Notes:**

OII extracts and documents lessons from investigations in Reports of Investigations or Advisory Notes that are shared with the relevant IDB managers and staff. Reports of Investigations communicate any deficiencies or weaknesses identified during an investigation and suggest concrete actions to address them. Advisory Notes communicate time-sensitive indicators of integrity risk to operational staff and management while an investigation is underway and recommend immediate actions to address imminent risks. The Bank may share findings and conclusions reflected in the Reports of Investigations with the government authorities responsible for implementing or overseeing implementation of the affected IDB Group-financed operation.

- **Integrity Risk Reviews (IRRs):**

These reviews of operations are conducted by OII in close coordination with project teams. The purpose is to identify strengths and weaknesses that decrease or increase integrity risk and its associated reputational impact on the program and/or the Bank. The IRR examines:

1- internal controls of the project implementation unit
2- procurement
3- asset verification
4- financial management

OII discusses the conclusions and recommendations of the analysis with the project team and the Executing Agency to agree on specific measures that could be taken to mitigate integrity risks and improve execution of the program.

iii. PROJECT CLOSING

At the end of a project's execution phase, the project team should include in the operation's completion report any relevant lessons that arise from investigations of prohibited practices conducted by OII.[15] The objective of this reporting is to increase accountability and learning. OII is available to guide the project team in extracting lessons and drafting integrity risk disclosures with the intention of informing the design of future operations.

[15] Project Completion Report. Principles and Guidelines. Update (GN-1242-3). Inter-American Development Bank, February 5, 2015.

Consultation

Multiple Issues: Pattern of Corruption?

A Project Team contacted OII because it observed the following red flags in two procurement processes to hire consulting services: (i) the Executing Agency attempted to include in the shortlist a company that had no relevant experience even though there were plenty of well-known companies that could provide the services; and, (ii) there were indications that one of the bidding companies had access to confidential information for preparing its proposal. The Project Team obtained information that a high-level public official owned many tracts of land in an area where the Program was being implemented and would benefit from a public works contract financed by the Program.

Issues:

Favoritism, leak of confidential information, potential negative impact on the Program's reputation.

Recommendations:

I- Conduct additional due diligence concerning names included in the shortlists sent by the Executing Agency to the Bank and request detailed explanations for why companies without relevant experience were being considered before the Bank granted the No Objection.

II- Reiterate to the Executing Agency its obligation to maintain a level playing field for all participants and to keep all information confidential until a winner is announced.

III- Reconsider whether the exact location of the public works was essential to the Project's success and, if not, relocate them to an area where the public official in question would not benefit directly from the public works contract.

Follow up:

OII continued working with the team to assess additional information that may indicate a systemic pattern of corruption within the Executing Agency, to take stronger corrective actions and to decide whether an investigation was merited.

What benefits have better integrity and reputational impact management brought to the Transport Division?

"Transport projects are always in the spotlight of public opinion, press, politicians and civil society. Therefore, one must always be aware that these kind of development projects are highly susceptible to the occurrence of prohibited practices. Hence, OII's proactive attitude has been fundamental for our transport projects, as well as their immediate response, their constant support and innovative ideas that have helped to shield transport operations from the materialization of integrity risks."

Fernando Orduz, Transport Lead Specialist.

c. Interview with

Sophie Makonnen

Representative of
IDB Group in Guyana

What has been the added value of working with OII and how has it helped you to navigate through integrity challenges?

It is important to highlight the capacity of OII to understand and work within different situations and contexts and being able to give us not only the guidance, but also the comfort and support, on how to address difficult situations that have integrity implications.

Whenever we have confronted allegations of prohibited practices in our portfolio, we really liked the responsiveness of the teams conducting the investigations. OII also gave us the comfort in supporting operational decisions that needed to be taken when there was no policy or framework that could guide us on what to do in such situations.

But what I really appreciate from OII is how they have helped me to communicate with governments, which is something that was not done before. In two cases, and with OII's support, the Bank wrote extensive letters explaining the findings and decisions taken to the government. And that, to me, was extremely precious. When I had to go to higher levels to explain why things were not moving, I did not have to tell a long story. It was concise, and I knew exactly what my boundaries were. It gave me the level of comfort to have some type of dialogue with the government, and it also gave the Country Group Manager guidance to talk to ministers and inform what we need and what we should do.

Have you perceived any changes or evolution in the work of OII and if so, its impact on the Bank?

Yes, there was a change in perception that OII is not a faraway entity; that they are reachable. Our staff seems to be accepting that OII is part of the Bank, and that it is not this far, inaccessible unit, but an office that does things for us. I find OII more approachable now and more realistic with what the situation is and what can be done. What I feel now is more like a team approach and that we have a new way of communicating with the Bank's partners.

Why does integrity matter?

It is about our reputation as an international organization. I think it is very important for the Bank to stand for the value of transparency, the value of integrity, the value of doing things the right way, fairness, equity. Those are part of our values. And it is also part of development. We know the consequences of corruption, we do not get the best prices, we do not get the best value. It comes to the respect of human beings, so it is fundamental to me.

We need to make sure that integrity and transparency are part of our programs and that this is non-negotiable. But doing it in a way that is reasonable, not excessive. Not being the police that tries to stop everything and by understanding the context. Therefore, working in hand with OII has helped me ensure the upholding of integrity and the values of the Bank.

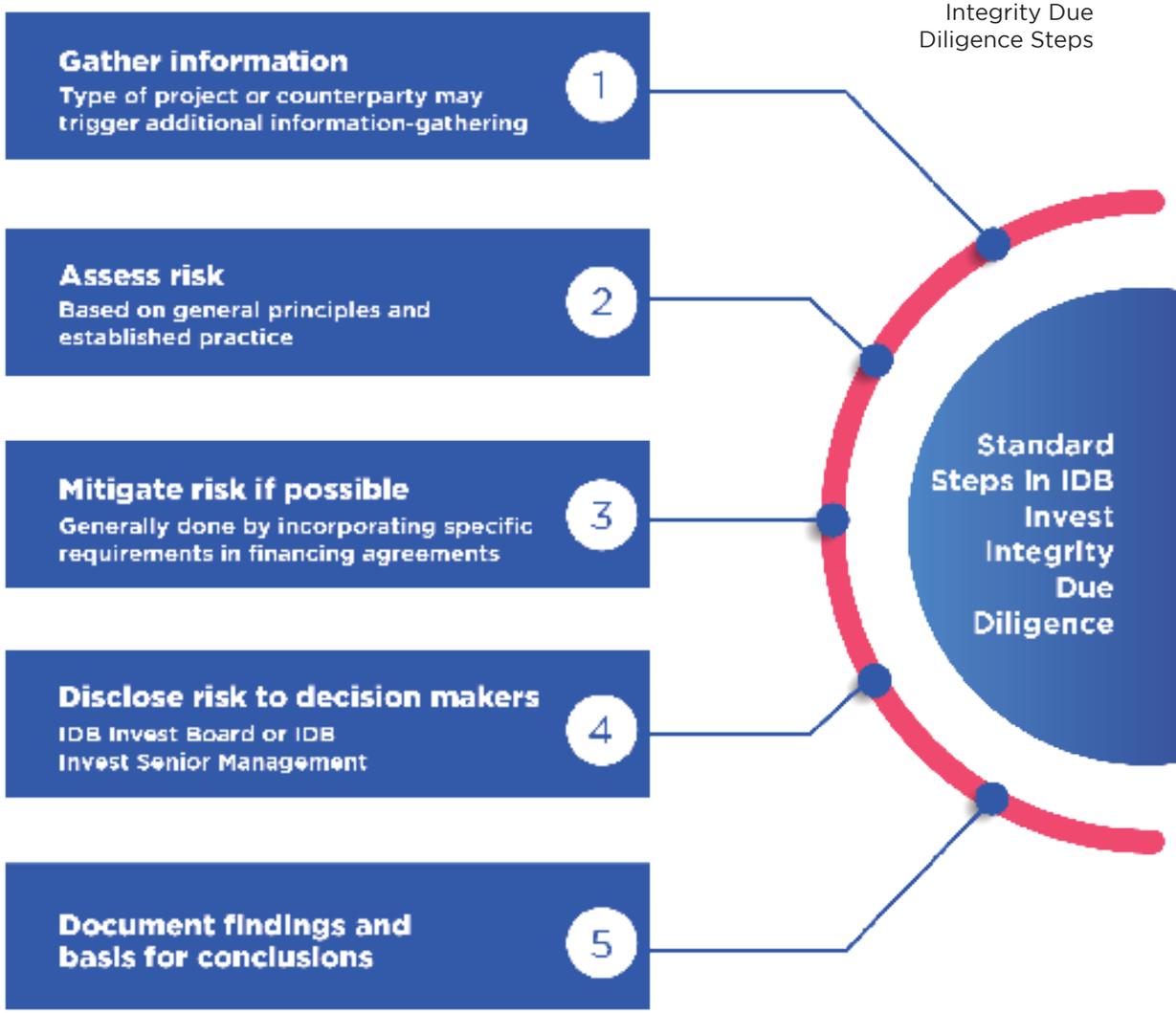
d. IDB Invest – Integrity Due Diligence

1.27 OII provides oversight and support to the integrity due diligence (or "IDD") conducted by IDB Invest. IDD is the principal method by which IDB Invest manages integrity risk[16] and related impacts on reputation. IDD entails a review of potential clients and other relevant parties that looks for indicators that they might engage in serious ethical or financial misconduct. IDB Invest conducts IDD for every operation, and the resulting risk assessment informs its decision of whether to proceed with that operation, and what mitigating measures to incorporate in the program. IDB Invest updates IDD reviews annually for projects in its portfolio.

[16] Integrity risk is defined as the possibility that a person or entity could engage in serious ethical or financial misconduct in connection with an IDB Invest operation – misconduct that includes prohibited practices, but also encompasses other improper activity, such as money laundering, financing of terrorism, tax evasion and abusive tax practices.

Figure 3

Integrity Due Diligence Steps



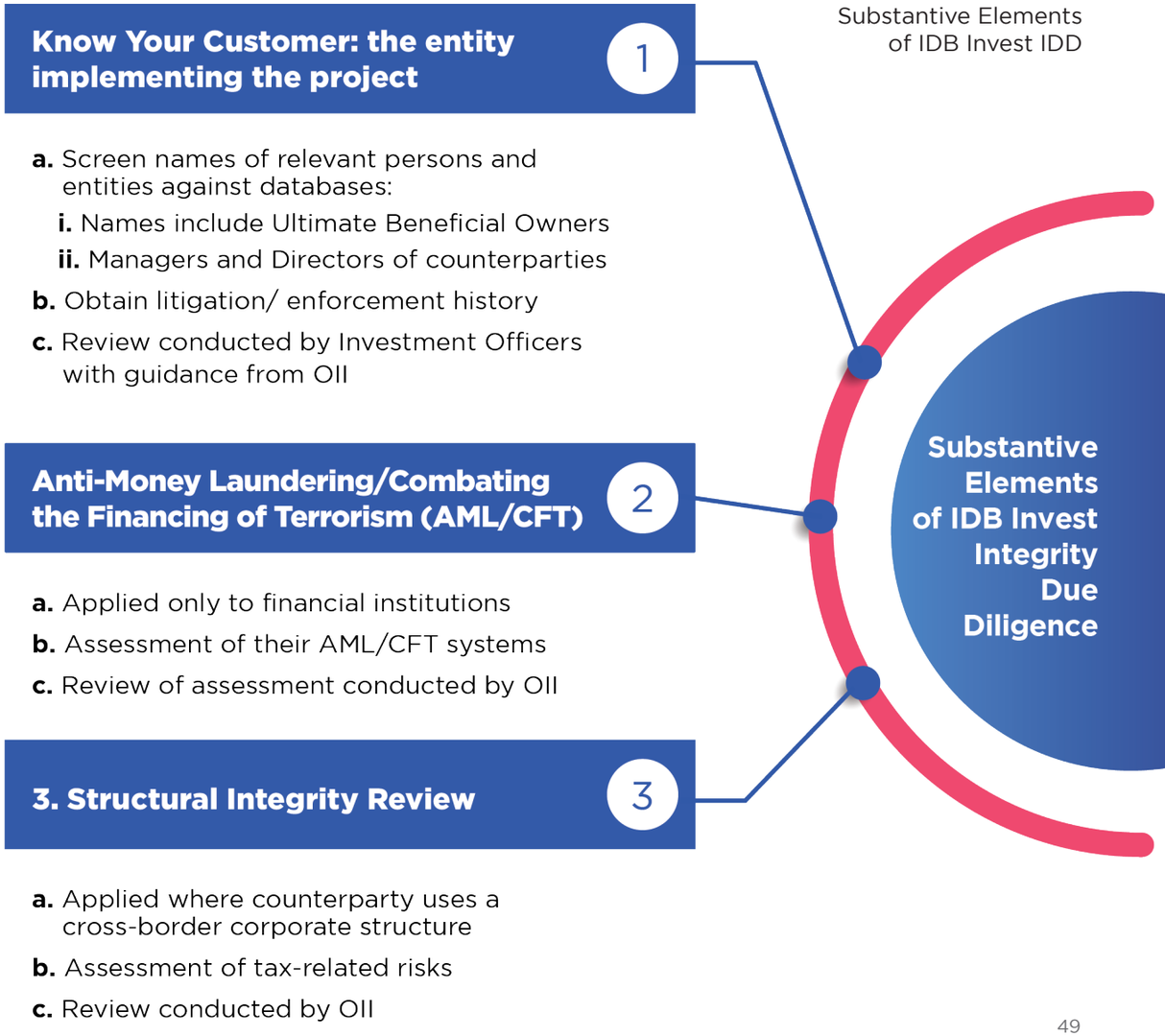
1.28 OII integrity officers provide close support to IDB Invest project teams as they work to identify and assess integrity risks. An integrity officer is assigned to all new projects, OII approval is required for a project to advance through the project approval process and OII takes the lead in preparing any disclosure of integrity or related reputational impact. While investment officers, as the first line of defense, are the main staff members responsible for conducting IDD, OII provides expert advice and takes the lead on more technical elements of that review (See Figure 4).

1.29 This approach – particularly its emphasis on disclosure to the IDB Invest Board of Executive Directors and other decision makers – reflects an effort by IDB Invest and OII to manage integrity risks as transparently as possible.

1.30 The current approach to IDD taken by IDB Invest has evolved over time. The IDB Group originally established integrity due diligence standards for private sector operations in 2006. Pursuant to these standards, OII provided advice upon request from the four-private sector "windows" of the IDB Group. In 2009, the IDB Group revised the project approval procedures covering most Non-Sovereign Guaranteed operations (NSG) to incorporate integrity input into the approval process for all projects. This was a crucial shift that allowed OII to systematically raise issues regarding compliance with IDD procedures, and consistency of risk assessments and disclosure of those risks to the IDB Invest Board of Directors. These procedures increased engagement on integrity issues and, over time, helped establish a more robust culture around the management of integrity risks in the affected windows.

Figure 4

Substantive Elements of IDB Invest IDD



1.31 The current IDD process reflects the changes made in the IIC's 2016 Integrity Framework.[17] This significant revision established two additional components of IDD: a review of the AML/CFT systems of financial institution counterparties and a new "structural integrity review" to assess tax-related risks arising from the use of cross-border corporate structures.

1.32 In addition, IDB Invest worked to reinforce its integrity culture by formalizing the input of OII integrity officers in all projects. As mentioned above, integrity officers are assigned to every IDB Invest project, and integrity approval is required for projects to be authorized without escalation to senior management. Significantly, integrity due diligence is understood to be a central element of IDB Invest project evaluations, and one that frequently has impacts for other risks including credit, environmental and corporate governance. Moreover, the mitigation measures required to diminish integrity risks – such as requiring counterparties to adopt compliance systems consistent with international best practices– increasingly contribute to the development objectives of IDB Group operations.

[17] This is the original title of the integrity framework document used by IDB Invest.

Structural Integrity/ Tax Risk Reviews:

1.33 The "structural integrity review" is an innovative approach to identifying and mitigating the risks posed by counterparties that use cross-border corporate structures particularly those that use offshore financial centers. The Integrity Framework established this structural integrity review as a distinct element of the integrity due diligence conducted by OII in support of IDB Invest.

1.34 This new approach resulted from a robust discussion between IDB Group Management and the IDB and IDB Invest Boards –a discussion that included input from national tax authorities, academics and other multilateral development banks-. The resulting consensus approach reflects two key principles: (i) Unacceptable reputational impact may be presented by corporate structures, even those that comply with applicable law. Care should be taken when making such determinations, which should be grounded in the principles and standards of relevant international bodies, principally including the OECD's Base Erosion Profit Shifting initiative. (ii) IDB Invest will not finance projects that use jurisdictions which present "tax information exchange risk" unless IDB Invest determines that those risks are adequately mitigated. Tax information exchange risk is determined using as a benchmark the principles of the Global Forum on Tax Transparency and the Exchange of Information for Tax Purposes (the "Global Forum").

More broadly, the new approach sought to balance several objectives:

- Engaging substantively on tax risks where cross-border corporate structures are used.
- Avoiding unduly mechanical approaches based on lists of "non-cooperative" or similar jurisdictions.
- Acting in accordance with IDB Invest's role in the international financial system.
- Implementing due diligence and mitigation approaches in a manner generally acceptable to clients.

1.35 IDB Invest and OII now have nearly two years of experience conducting structural integrity reviews. The Prevention Output section of Part II of this report includes a quantitative summary of the number and results of these reviews in 2017.

1.36 In a more qualitative sense, the system appears to be working as intended. Structural due diligence conducted by OII staff has regularly identified substantive tax-related risks. Some structures were considered improper, in which cases IDB Invest dropped the project or the client agreed to significant restructuring. In other cases, OII found that a structure could facilitate improper tax behavior and designed mitigation measures to address such risks. In at least one case, those mitigation measures resulted in significant increased tax revenues for a borrowing member country.

1.37 This approach has been well received by key stakeholders. The vast majority of IDB Invest clients have accepted the additional burden of the structural integrity reviews. Moreover, this method of review has served as a model for other MDBs that have adopted or are considering adopting similar standards. Finally, the NGO community that follows tax and illicit financial flows has also reacted positively to this new approach.

1.38 The IDD approach described in Figures 3 and 4 is a useful way to manage integrity risks and elements of it have been adopted by other IDB Group units.

e. Applying Integrity Due Diligence to other IDB Group Activities

1.39 Like IDB Invest, the Multilateral Investment Fund (MIF) has adopted an integrity due diligence model to manage the integrity and related reputational impact that can arise from its operations. While the MIF's integrity review method is generally consistent with that applied by IDB Invest, some differences result from varying degrees of risk presented by MIF operations and counterparties – particularly the recipients of MIF technical cooperation grants. OII provides advice and technical support to MIF upon request.

1.40 Similarly, the Office of Outreach and Partnerships (ORP) – which manages the IDB's efforts to mobilize third party resources – and OII worked together to develop a due diligence analysis that allows ORP to manage the reputational impact that can arise from partnerships or other collaboration with private sector entities. OII provides regular advice to ORP regarding the risks posed by specific proposed partnerships.

f. Capacity Building: Enabling Others to Identify and Manage Potential Risks

1.41 OII believes that shared responsibility is the bedrock of managing integrity risk. A successful risk management strategy must rely on a collective and coordinated effort of the IDB Group and its development partners in the region. A vital tool for sharing the knowledge we gain from our preventive and investigative work is through trainings to build capacity among internal and external stakeholders.

1.42 OII provides training for two broad purposes: (i) to increase awareness of the IDB Group integrity requirements that provide guidelines on the roles and responsibilities of IDB Group employees, executing agencies, beneficiaries of IDB Group financing and private sector entities in detecting, reporting and preventing prohibited practices; and (ii) building internal and external capacity to manage integrity risk in IDB Group operations. OII's training materials are based on relevant policies and procedures and incorporate case studies from investigations and prevention consultations.

Title of Course	Target Audience	Description	Frequency
Contribution to the workshop "Fundamentals of Sovereign Guaranteed Operations"	New operational staff	One-hour session in a two-day long training program to provide new operational staff with an overview of OII's mission, its mandate and the obligation to report prohibited practices.	2 - 3 times a year
Integrity in IDB Goup-Financed Operations	Personnel in HQ and Country Offices	This session has been designed as an introduction to the Bank Group's sanctions system and the services offered by OII. It also seeks to familiarize the audience with the consultation service offered by the preventive team of OII	Offered throughout the year and scheduled on an ad-hoc basis either as a suggestion of OII or by request
Integrity Risk Management	Operational staff	Designed for project teams (sector and fiduciary specialists) with the tools and resources to identify and mitigate integrity risks	Offered throughout the year and scheduled on an ad-hoc basis either as a suggestion of OII or by request
Integrity in IDB Group-Financed Operations for external audiences	Members of the Bank's council of civil society organizations, executing agencies and external auditors	Designed for stakeholders to present the IDB Group's anti-corruption framework, including its authority to investigate and sanction allegations of prohibited practices in IDB Group-financed operations	Offered throughout the year and scheduled on an ad-hoc basis either as a suggestion of OII or by request

Title of Course	Target Audience	Description	Frequency
Integrity Risk Management in IDB Group-Financed Operations	Personnel of Executing Agencies ("EA")	Half-day training for EA personnel to identify red flags of prohibited practices, perform basic due diligence and mitigate integrity risk	Offered throughout the year and scheduled on an ad-hoc basis either as a suggestion of OII or by request
Contribution to Ethics Course	Bank Group personnel	OII contributes to the training offered by the Ethics Office on the Bank's Ethics Code. OII's target is to highlight the obligation of all Bank personnel to report allegations of prohibited practices	Once a year
Integrity Due Diligence (IDD) Orientation	New employees at IDB Invest	An overview of integrity due diligence at IDB Invest including why we do it, how we do it (procedural steps) and how we make decisions/ mitigate risks	Quarterly
Contribution of Country Representatives to IDD	Country Representatives	An overview of IDD with a discussion of how input from Country Representatives may be incorporated	Once per year

Table I

OII Training Activities

4 INVESTIGATIONS AND SANCTIONS: RESPONDING TO ALLEGATIONS AND RED FLAGS

1.43 As the leading development institution in Latin America and the Caribbean, the IDB Group is viewed by borrowers and donor countries alike as a trustworthy partner, financier and administrator of complex development projects in the region. In part, this confidence in the IDB Group stems from the institution's robust integrity mechanisms and oversight functions that prevent and deter fraud and corruption in development projects. Without these mechanisms, diversion of funds could be commonplace, eroding the social contract the IDB Group and borrowers have with donors and beneficiaries. The IDB Group, through OII and the Sanctions System, responds to all allegations of prohibited practices with a Zero Tolerance approach.

1.44 As evidenced in the case studies below, OII and the Sanctions System provide a necessary service to the IDB Group and related stakeholders by ensuring that the response to allegations of prohibited practices is professional, objective and effective. In the past 15 years, OII has responded to over 1,861 allegations, leading to over 437 sanctions.[18]

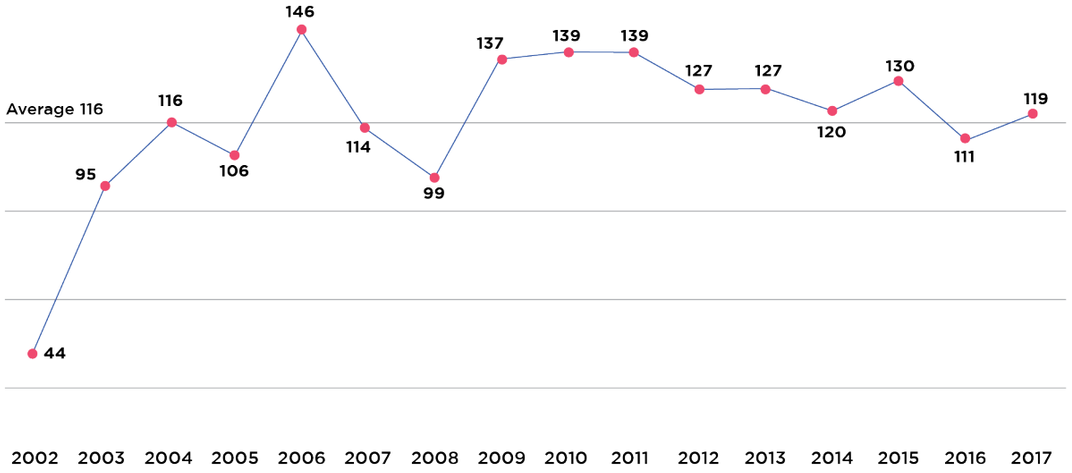
1.45 Common findings of prohibited practices resulting from OII investigations include: fraud in the form of inexperienced and incapable bidders purporting to have the qualifications necessary to complete complex construction and infrastructure projects; fraud in execution of a project where contractors receive payment for goods and services never delivered; collusion that prevents fair competition and cost savings for beneficiaries; and corruption by executing agency officials who wrongly disqualify eligible bidders and award contracts to unqualified bidders in exchange for bribes. All of these types of cases involve flaws in some link of the development chain and had a negative impact on achieving development effectiveness.

1.46 The results of OII's investigations are communicated to OII's prevention staff, project teams and Bank Management. The investigative findings allow these stakeholders to extract lessons learned that can help prevent integrity issues from arising in the future.

[18] The number of sanctions listed reference those issued prior to the creation of the current Sanctions System.

Figure 5

Total Number of Allegations from 2002 to 2017



1.47 Separately, OII submits a Statement of Charges and Evidence (SOC) to the Sanctions System against entities and individuals found to have committed prohibited practices. The determinations[19] of the Sanctions Officer or Sanctions Committee against respondents are made public, often in the form of a public debarment that bars a sanctioned entity or individual from future participation in IDB Group-financed activities. These administrative sanctions serve as the IDB Group's primary deterrent for others who may be considering committing prohibited practices in development projects and help level the playing field between project bidders while delivering a fundamental message to executing agencies on the importance of integrity in IDB Group-financed operations.

[19] If the Sanctions Officer finds that a Prohibited Practice is supported by a preponderance of the evidence, the Sanctions Officer determines a sanction on the Respondent. If the determination is that the Prohibited Practice is not supported by the preponderance of evidence, the allegations are dismissed, and proceedings terminated.

a. Interview with

Andres Rigo

Chairman of the Sanctions Committee

Challenges and Developments of the Sanctions System.

What would you consider to be the main goal of debarment within the work performed by the IDB?

The establishment of debarment systems started at the World Bank, about twenty years ago, to safeguard the fiduciary responsibility and reputation of the institution, and to ensure that funds were used for the purpose for which they were intended. Those continue to be the goals both for the IDB's system and that of the other development banks. At the same time, the goals have evolved and have widened. In development terms, debarment may help in building capacity, through compliance programs and training.

What would you consider to be the main challenges that the Bank's Sanction System will face in the near future?

A challenge is the use of effective compliance programs in very small companies. Changing mentalities is very difficult. For the Bank, it is very important to understand the effort required in reviewing compliance programs, supervising them, and ensuring that they are worthwhile to pursue. It is important to have these discussions at the policy level.

Equally challenging is the issue of restitution of funds. How will the funds be used when a sanction involves restitution and where does the money go? These considerations need to be well thought out.

Could you tell us about a case that you consider was a key development for the Sanctions System?

I cannot point out a particular case. Most important in developing the current sanctions system was a change in policy on how to address corruption. It took place in the mid-90s. The coordination and harmonization of policies and procedures among development banks has been a key factor. The publication of sanctions helps in the effectiveness of the system.

I have been involved in this area for a long time, before at the World Bank, and now at the IDB. I find it very satisfying to see how the institutions have learned from experience, and how the system has evolved to protect the institutions and protect the rights of the respondents. For example, the respondents can be heard, to be assisted by counsel and to appeal first-tier decisions.

What are your views on the effectiveness of cross-debarment as a tool to deter corruption at the global level?

I think it is extremely effective, particularly for firms that work worldwide and depend on projects financed by the international development banks. The label of corrupt or fraudulent is placed on the Banks' websites. From day one, publication has been the most effective deterrent.

b. Sanctions System in a Nutshell

I. Pre-Investigation Phase - OII Receives a Complaint:

1.48 Complaints, or a report of a possible Prohibited Practice, may originate from IDB Group employees, third parties, or anonymous sources and can be received through different reporting channels including e-mail, the OII website, a telephone hotline and in-person reporting. Processing of complaints involves three separate tasks: (i) filtering out spurious complaints; (ii) creating records of seemingly credible complaints in the Case Management System; and (iii) assessing if complaints meet OII's investigative mandate. OII's investigative mandate requires that a complaint:

- concerns a Prohibited Practice,
- relates to activities financed or to be financed by the IDB Group, and
- provides sufficient information to be credible.

1.49 If a complaint meets these criteria in the initial assessment, then OII converts this complaint into a preliminary investigation. If a complaint does not meet these criteria, OII closes the case, but may refer it to relevant departments or other organizations for possible action.

1.50 OII not only receives allegations that are presented to the Office but also monitors press reports and other information about current events in the region and this analysis allows OII to launch proactive investigations.[20]

1.51 During a preliminary investigation, the intake team determines whether a full investigation is warranted. OII makes this assessment by obtaining information from relevant IDB Group staff, conducting preliminary interviews of complainants and witnesses, and considering various factors, including:

- the egregiousness of the alleged wrongdoing;
- the viability of conducting an investigation;
- the amount of loss or harm resulting from the alleged wrongdoing;
- the possibility of systemic problems;
- the likelihood that the subject engaged in similar conduct in other IDB Group-financed activities; and
- time-sensitivity of the underlying activity.

1.52 The information gathered through this process enables OII to better understand the allegation's potential impact on the IDB Group-financed activity and the program's development objectives and beneficiaries. The preliminary inquiry also helps OII determine whether the allegation merits the resources that would be invested in a full investigation.

[20] A proactive investigation is an investigation that is generated by sources other than complaints communicated to OII. Examples include media reports, research and analysis or integrity risk reviews.

II. The Investigation Phase:

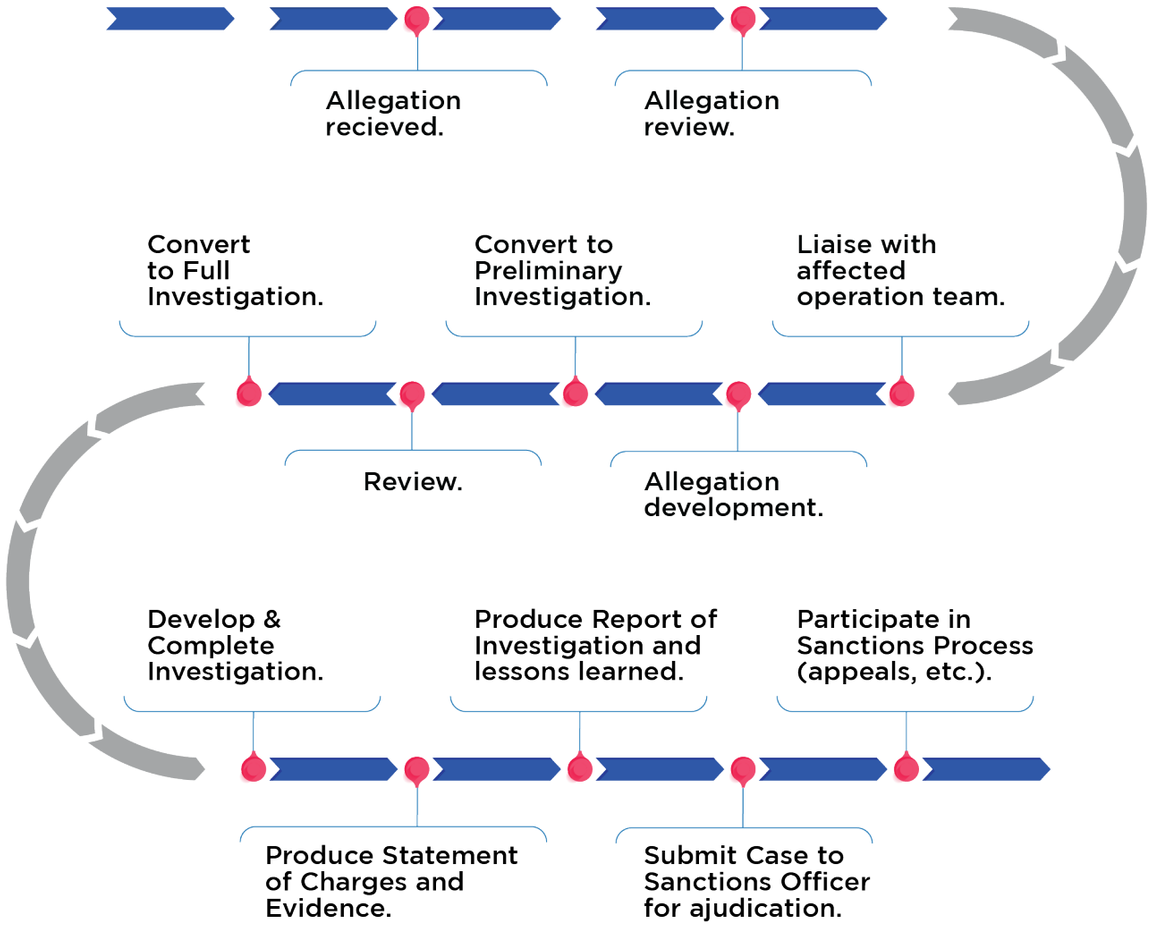
1.53 During the investigation phase, OII conducts missions to collect relevant documentation and evidence, interview witnesses and involved parties, meet with executing agency officials and visit project sites, as required.

1.54 The tools available to OII for conducting investigations include audit and inspection rights set forth in loan agreements and contracts for goods and works and consultancy services. The terms of IDB Group program agreements make it possible to collect relevant evidence in the possession of executing agencies and third-party contractors.

1.55 The fact-finding process of an investigation follows the principles of fairness and due process. During its investigations, OII seeks to obtain inculpating and exculpating evidence that may lead to a conclusion as to whether a prohibited practice occurred and whether aggravating or mitigating factors exist.

Figure 6

The Investigative Process[21]



[21] This case represents a full investigation process.

III. Post-Investigation Phase:

1.56 Based on the outcomes of the investigation, the Chief of OII determines whether the evidence gathered supports a finding that the subject of an investigation more likely than not did engage in a Prohibited Practice. If this standard has been met, OII prepares one or more SOC. An SOC must attach the evidence that supports the findings, together with any exculpatory evidence. These documents are sent to the SO and are the focus of the first tier of the adjudication phase of the Sanctions System.

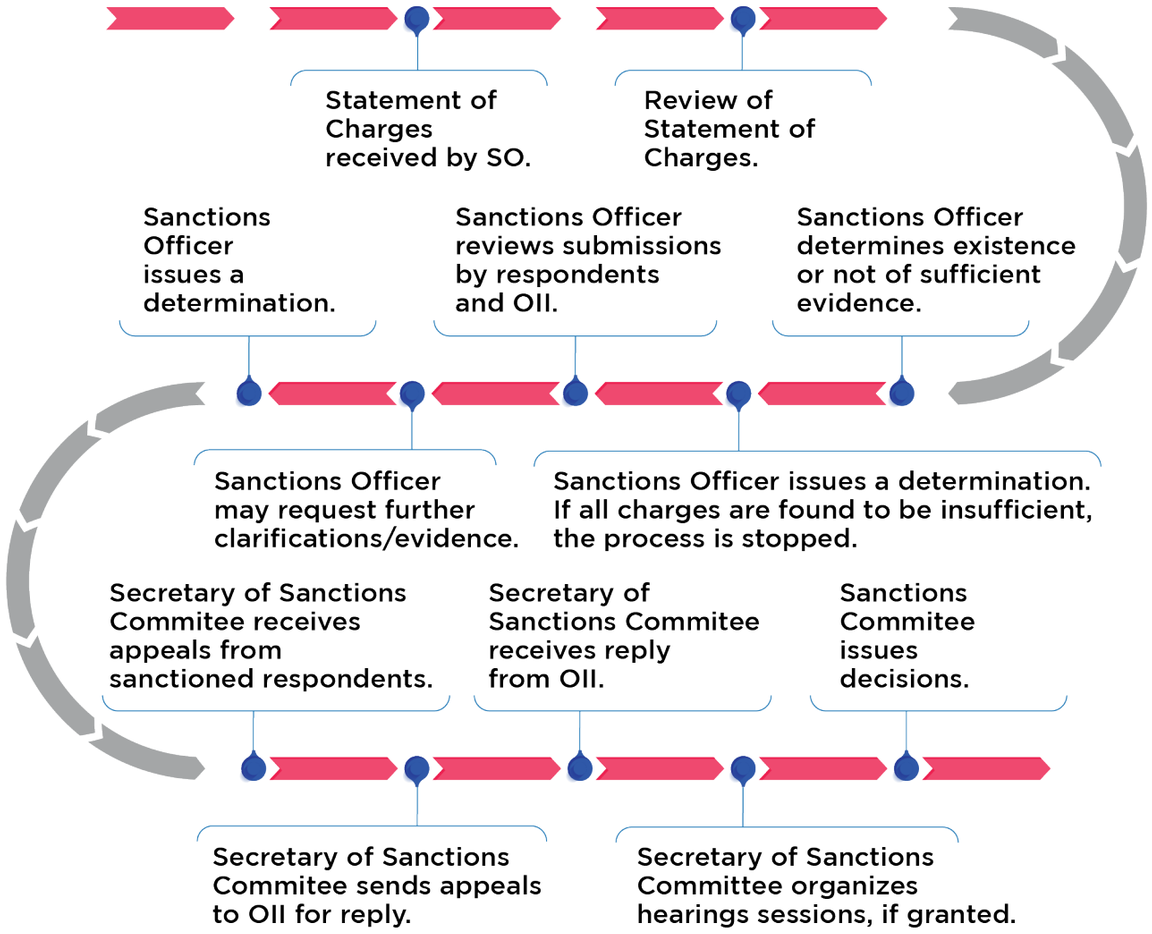
1.57 After affording respondents the opportunity to respond to the SOC, the SO determines whether the evidence supports a sanction and decides the terms of the sanction. If a sanction set by the SO is appealed to the SNC, OII participates as a party in the resulting appeal. In this capacity, OII prepares a reply to the Respondent's appeal and provides any information or materials required by the SNC. OII also takes part in all hearings held in connection with such appeals, which may require OII to deliver oral arguments or examine witnesses appearing at the hearing.

1.58 In addition, following a full investigation, the investigators assigned to the case will work with the prevention team to prepare a Report of Investigation for the relevant managers and operational staff.

1.59 In accordance with the Sanctions Procedures, OII and a party under investigation may enter into a Negotiated Resolution Agreement (NRA) to address allegations of prohibited practices. The concurrence of the SO is a pre-condition for entering into an NRA. Through this mechanism, OII and the parties under investigation can reach a resolution of an investigation involving a Prohibited Practice. The use of NRAs is contingent on the willingness of an investigated party to cooperate with OII and can only be considered when the investigated party agrees to provide evidence that facilitates the IDB Group's understanding of (i) systemic prohibited practices or integrity risks to IDB Group financed activities, or (ii) significant prohibited practices of the investigated party or other parties. In exchange for the cooperation, the investigated party may receive a lesser sanction to one issued in a contested proceeding.

Figure 7

The Sanctions Process



c. Interview with

Fiorella Peirano

OII Investigator

In the Words of an Investigator.

What is your personal motivation for fighting corruption?

What really inspires me to fight corruption is to make sure the Bank's funds are effectively used to promote development. If there is corruption, the objectives are not accomplished. I grew up in a country where corruption became the main obstacle to development. Many countries in the region struggle so hard to create jobs, to fight poverty and to build solid infrastructure. Latin American countries are so rich in resources that they should not be struggling to achieve growth, but sometimes they do, because the resources are being stolen or diverted to other unintended purposes.

What is the biggest challenge you have faced in an investigation?

When investigating cases, some involve topics that are politically and economically sensitive, so it is difficult to navigate. When the stakes are so high, people will do unimaginable things to avoid getting caught. There is also uncertainty when meeting subjects or even witnesses as safety could be an issue; while confronting threats ranging from hostile environments to intimidation, I always have to remain professional and focused because I am not only representing myself but also the Bank, and everything for which the Bank stands.

What has been your most rewarding experience as an investigator?

It is also deeply rewarding to hear from people affected by corruption some of whom are not expecting the Bank to take their allegation so seriously. As part of the intake team I can investigate how corruption affects people's lives, and this also lets me build rapport to help them understand that OII is doing something about it. Hearing the gratitude that people give you just for listening to them is also very satisfying.

d. Types of Sanctions

According to the General Principles and Guidelines for Sanctions, the base sanction is a three-year debarment period that can be enhanced and/or reduced from a range of one to seven years based on a set of mitigating and aggravating factors to be considered by the SO and the SNC. The SO and the SNC may impose the following sanctions:

- Reprimand
- Debarment for a determined period
- Permanent debarment
- Conditional debarment
- Conditional non-debarment[22]
- Debarment with conditional release[23]
- Restitution of funds or other monetary sanctions

[22] Conditional Non-Debarment is a determination that a Respondent is required to comply with certain remedial, preventative or other measures as a condition to avoid debarment from additional contracts for Projects. Failure by such Respondent to comply with such measures in the prescribed time period may result in automatic debarment under the terms provided in the Determination or Decision, as appropriate.

[23] Debarment with Conditional Release is a determination that a Respondent is subject to debarment subject to a conditional release under which such debarment shall be terminated upon compliance with conditions set forth in the Determination or Decision, as appropriate.

e. Fifteen Years of Investigations

1.60 The following case studies offer examples of investigations carried out during the last 15 years in which prohibited practices and lapses in the development chain resulted in inefficient project implementation or the failure to deliver programmed results. Each case is unique and captures the complex nature of OII investigations as well as the diverse partnerships OII must maintain to effectively conduct its work.

Project team and OII work together to protect donor funds

As part of an IDB-managed regional private sector program aimed at supporting development of innovative start-ups, a small start-up company was awarded a grant of US$500,000 (to be disbursed in installments) based on a business plan to manufacture cellular phones and electronic tablets at competitive prices in its respective region, hiring locally based unemployed single mothers. The business plan also included employee training and social benefits such as on-site childcare.

After receiving the initial disbursement of US$120,000, the company failed to achieve planned activities under the first milestone that included modeling of prototypes, training and early manufacturing and delivery of products. These deficiencies were red flags that alerted the project team, who reported their suspicions of fraud to OII.

The investigation revealed that the company and its owner made material misrepresentations in the business plan presented for the award of the grant. Specifically, the company misrepresented its capability to design, manufacture and distribute products in the region. In addition, OII discovered that the owner of the company never intended to manufacture goods in the local region or provide relevant training and employment. This was evidenced by the fact that the company's entire operation was based on a model in which the company ordered inexpensive cellular phones and tablets from a foreign manufacturer, assembled them on site or simply repackaged already assembled goods, and relabeled them with the company's logo in order to fraudulently pass them off as being of local regional origin. In addition, single mothers hired by the company did not receive training in manufacturing electronic products and did not receive payment for childcare, as required.

Based on the findings of the investigation, the Sanctions Officer determined that the company and its owner would be debarred for eleven years. The program was terminated prematurely, and no further disbursements were made. Among the aggravating factors considered in the sanction were the harm to the affected program and beneficiaries.

Coordination with Donors. Throughout the investigation, OII and the project team communicated aspects of the investigation and its impact on the operation to the donors of the funds that financed the Program. Early detection of the misconduct by the project team and OII's investigation enabled the IDB to protect donor funds from further fraud and waste, freeing up funds for other programs. The intervention by the project team and OII and the sanctions imposed by the Sanctions Officer also reinforced the IDB's reputation for managing donor funds with integrity.

Collusion with an executing agency and the incorporation of a fake shell company to pose fraudulently as part of an unwitting third-party company

The IDB financed a multi-million-dollar program which enhanced mobility and safety by reducing vehicle operating costs, travel times, and road fatalities. The program contemplated financing two projects to improve roads.

After completion of the bidding processes for the projects, which contemplated contracts amounting to almost US$40 million for the rehabilitation, expansion, and construction of roads and the installation of road safety mechanisms, the Executing Agency requested the Bank's No Objection to finalize the contracts. The Bank's No Objection was not granted due to several concerns regarding the Executing Agency's evaluations. These concerns were submitted to OII, which conducted a thorough investigation, revealing a collusive scheme between staff of the Executing Agency and the Respondents which appeared to unjustly disqualify bidders, thereby favoring the Respondents. As part of the scheme, OII also discovered that the Respondents incorporated a fake shell company, and used fake documents, so that they could pass themselves off as being part of an unwitting third-party company, an important international player in the field, in order to mislead the Bank.

The SO temporarily suspended the Respondents to protect the Bank during the duration of the administrative proceedings and issued Notices of Administrative Action (NAAs) alluding to OII's allegations; however, the Respondents did not submit a Response. The SO subsequently determined that the Respondents engaged in fraudulent and collusive practices and sanctioned them to a significant debarment period.

This was a seminal case due to the harsh punitive measures imposed by the SO as a result of the Respondents' collusive agreement with the Executing Agency, the complex fraudulent scheme employed, and the high value of the contract which, if diverted to other uses, would have severely hampered the program.

OII

WORKS TOGETHER WITH TEAM LEADERS TO PROTECT DONOR FUNDS

PART II
OUR PERFORMANCE IN 2017

1 PREVENTION OUTPUTS

a. Consultations on Sovereign Guaranteed Operations

2.1 In 2017 OII began compiling statistics on the Sovereign Guaranteed Operations consultations it receives. Since OII expects that demand for this service to Bank operations will grow, it is essential to track the trends and progress.

2.2 During 2017 OII responded to 49 consultations and provided recommendations that addressed indicators of possible prohibited practices and management and mitigation of integrity risk in SG operations. These consultations were triggered by the following primary causes (See Figure 8):

(i) Guidance requested by project teams and senior managers seeking to know how to assess and mitigate integrity risk;

(ii) Identification of risk factors by OII's intake and investigative functions – If, while assessing a complaint or investigating an allegation of prohibited practice, these teams identify indicators of imminent integrity risk in the Project, they share that information with the preventive function of OII so that they can address the indicators directly with the respective project team. OII's intervention seeks to provide timely and actionable responses to project teams while the investigation takes place; and

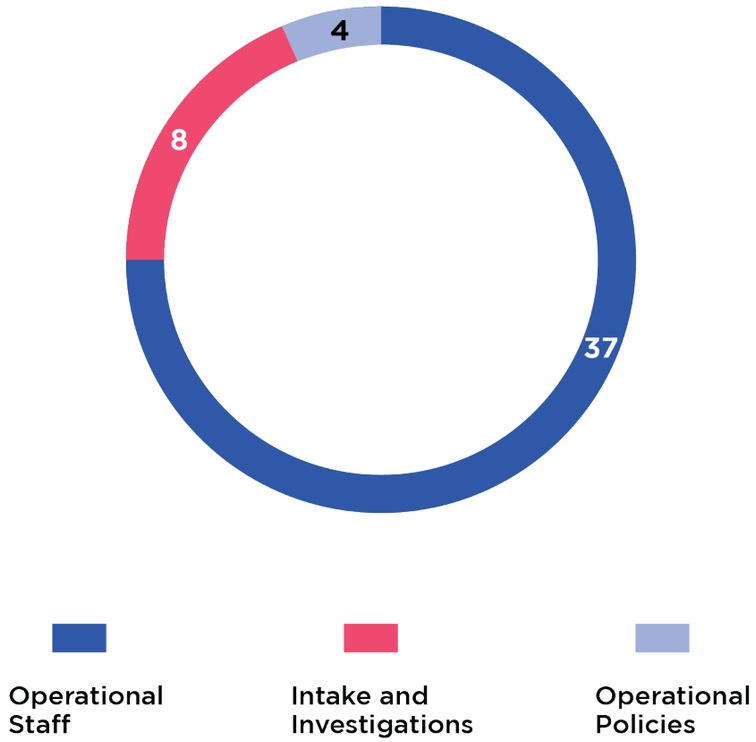
(iii) Compliance with the Bank's operational policies –the Guidelines to Process Loans Based on Results (GN-2869-3) require that SG project teams identify and assess integrity risks of the project during the preparation of Loans Based on Results (LBR). Consultation with OII is mandatory for the project team to determine whether there has been an integrity allegation or red flag related to the proposed executing agency for the implementation of a specific project. Likewise, the update of the Risk Management Guidelines for SG Operations which entered into effect in 2018 will require project teams to consult with OII to know whether any integrity risk mitigation measure is required for the operation that is being prepared.

2.3 Of these 49 consultations received in 2017, 37 originated from operational staff; eight originated in the intake and investigation functions of OII and four were required by the Bank's above-mentioned policies.

2.4 The vast majority of the consultations were on projects that were in the implementation phase (41 out of 49). The remaining eight consultations related to projects under preparation.

Figure 8

Triggers of Consultations

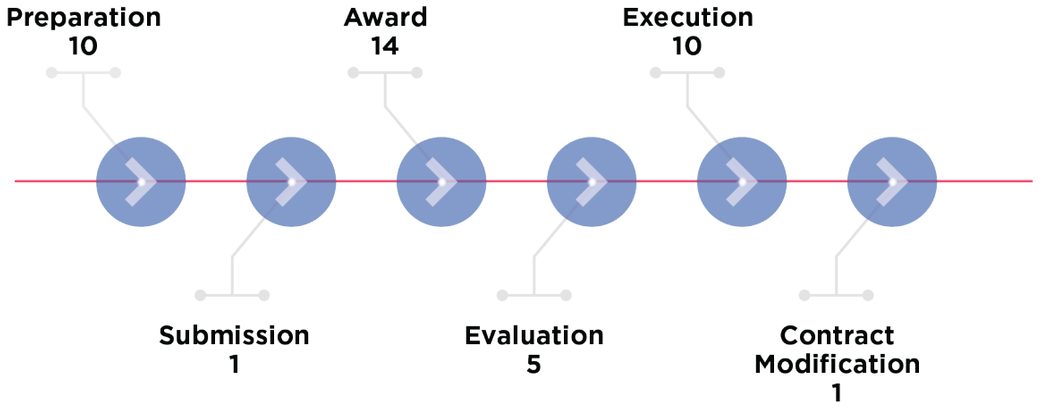


2.5 The consultations received for projects under implementation primarily required advice regarding risk factors identified during specific procurement processes. The most common phase of the procurement cycle where risk factors were identified was the award phase, followed by the preparation and execution phases (Figure 9).

2.6 During 2017 OII addressed consultations linked to programs arising in five of the seven Sector Departments of the Bank, as follows: 10 from Climate Change and Sustainable Development; 18 from Infrastructure and Energy; seven from Institutions for Development; three from Integration and Trade; and nine from the Social Sector. The two remaining consultations were not related to a specific sector.

Figure 9

Consultations Throughout the Procurement Cycle



2.7 The issues on which OII provided advice involved a variety of topics, which were classified as follows:

Table 2

Issues addressed in SG Consultations[24]

Type of Issue	Number of Consultations
Possible or alleged prohibited practice	23
Conflict of interest	9
Reputational impact	7
Eligibility and sanctions	6
Integrity provisions/Contractual language	5
Integrity Background	5
Compliance with operational policies	4
Others	2

[24] Some consultations involved more than one issue, therefore the total number of issues is greater than the number of total consultations.

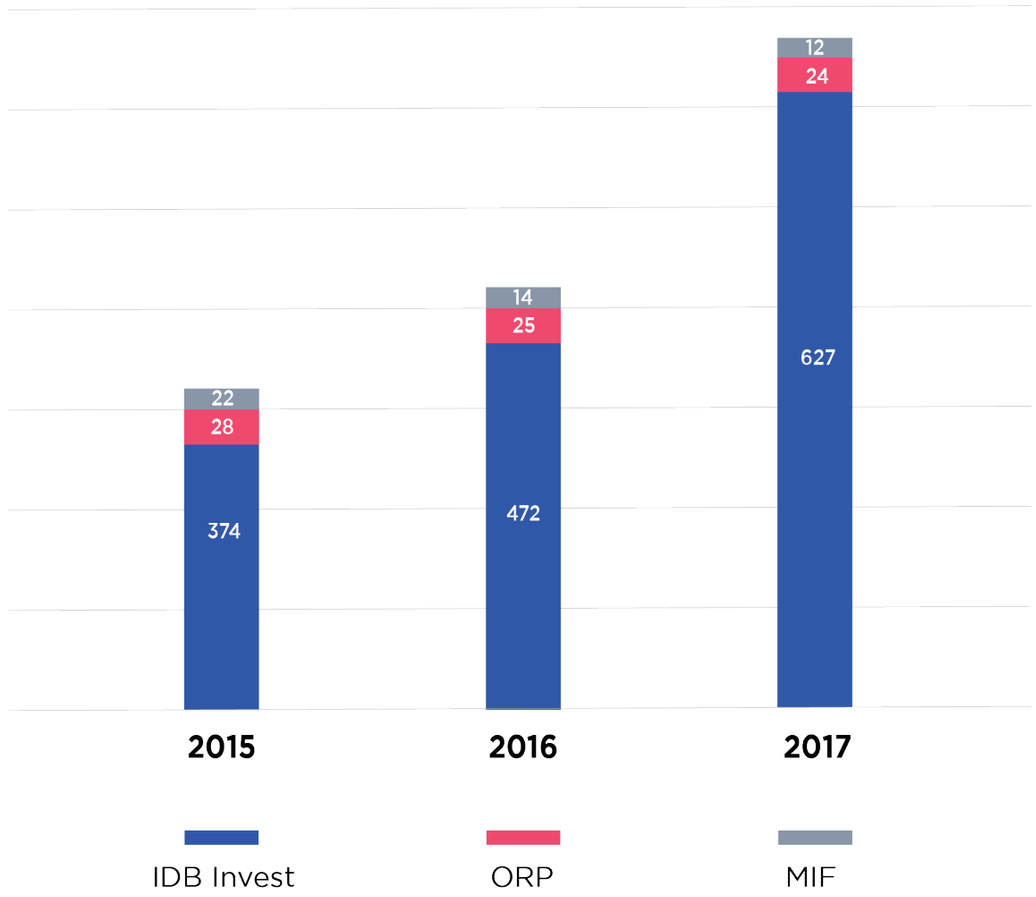
b. Advice to IDB Invest, ORP and MIF in connection with Integrity Due Diligence

2.8 As mentioned in Part I of this Report, OII provides advice to IDB Invest, ORP and MIF in connection with the integrity due diligence they conduct on counterparties. The bulk of these consultations relate to IDB Invest, because OII participates in the eligibility and structuring phases of every IDB Invest development project. OII also frequently responds to consultations from IDB Invest relating to projects in supervision and other project phases. OII tracks the work it does at each phase as a separate "engagement", because each represents a distinct element of work for OII, and because projects frequently begin their project cycle in one year and finish in another.

2.9 As shown in Figure 10, from 2015 to 2017 the principal change in support for IDD was an increase in engagements with IDB Invest. This increase has been driven by growth in the number of IDB Invest operations, including operations that were not ultimately approved. OII engaged 627 times on IDB Invest projects in 2017 – which constituted a 33% increase from 2016.

Figure 10

Total OII engagement on IDD in 2017

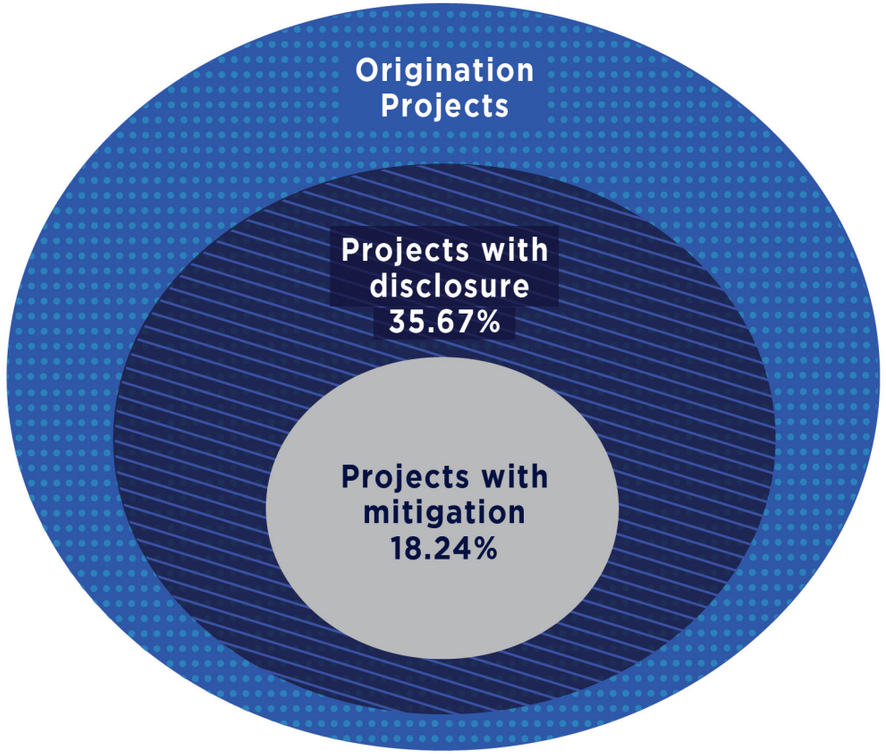


2.10 OII engagements on IDD, generally consist of OII providing advice on how to assess and mitigate the risks presented by specific risk indicators. Sixty-six percent of the IDB Invest consultations were related to projects in origination and 34% to projects in portfolio. Figure 11 shows the total of the projects in origination. As demonstrated in the middle circle, 35.67% of the projects in origination include a disclosure addressing integrity concerns, and, as shown in the smallest circle, 18.24% of the projects in origination require the adoption of mitigation measures[25] (Figure 11).

[25] Based on internal information as of December 2017.

Figure 11

Percentages of IDB Invest projects in origination with disclosures and mitigation measures



2.11 Consultations on projects in origination can be further broken down by the element of IDD that is under examination. The IDB Invest Integrity Framework, which was approved in 2016, established three elements of Integrity Due Diligence: (1) General "know your customer" (KYC) reviews, (2) AML/CFT Reviews of financial institutions and (3) Structural Integrity Reviews of cross-border corporate structures.

2.12 The KYC review is general and is carried out by investment officers on all projects with the support of OII. Issues arising under this element range from politically exposed persons to ongoing investigations or other indicators of serious ethical or financial misconduct. Disclosure of KYC issues were included in the report to the IDB Invest Board of Directors for 17 projects in origination, and mitigation of KYC issues were included in two projects. IDB Invest dropped or placed on hold 10 projects based on KYC concerns.

2.13 The AML/CFT assessment is only conducted on financial institutions and is carried out by OII. This element assesses whether the AML/CFT systems implemented by financial institution counterparties comply with applicable law and international best practices. In 2017, OII conducted 54 AML/CFT reviews on IDB Invest counterparties. OII also conducted heightened due diligence – done in cases where risks are elevated – on 10 projects. One of those was triggered because the financial institution was located in a jurisdiction that the Financial Action Task Force has concluded presents strategic AML/CFT deficiencies. The other nine reviews were triggered by OII's perception of elevated risk.

2.14 Disclosure of AML/CFT risks were included in nine projects, and mitigation of AML/CFT risks were incorporated in five projects. IDB Invest dropped or placed on hold three projects based on AML/CFT concerns, and in two other cases withheld new operations under existing uncommitted facilities (e.g., Trade Finance Facilitation Program, or TFFP, lines of credit) based on AML/CFT concerns.

2.15 The structural integrity review is also carried out by OII and is conducted when a counterparty uses a cross-border corporate structure that includes indicators of tax-related risks. A key indicator of tax-related risk is the use of entities in jurisdictions that present tax information exchange risk (based on the output of the Global Forum on Transparency and the Exchange of Information for Tax Purposes). In 2017, OII conducted 39 structural integrity reviews. Of those, four were triggered by the use of entities in jurisdictions that present tax information exchange risk, and 35 were based on OII's judgment of elevated risk, based on other risk indicators. These reviews resulted in 39 disclosures of structural tax-related risks, and the incorporation of mitigation measures in 25 projects, including all four of the projects that presented tax information exchange risk. IDB Invest dropped two projects based on structural/tax-related risks – both of which related to the use of companies in jurisdictions that present tax information exchange risk.

2.16 In total, 16 projects were dropped, placed on hold or withheld (in the case of existing TFFP lines) based – at least in part – on integrity or related reputational risks.

c. Reports of Investigation

2.17 ROIs are one of the main channels by which OII shares with operational staff the findings and lessons learned from its investigations. In 2017 OII shared six ROIs with the relevant Bank Country Managers, Sector Managers, Division Chiefs, Country Representatives and the Chair of the Anti-Corruption Policy Committee (ACPC). These reports are also discussed with the relevant project teams to inform them of the findings and agree on the recommendations to take into account for design and implementation of future operations under a similar context.

d. Training Outreach Activities

2.18 As part of OII's knowledge sharing and capacity building efforts of 2017, OII carried out 39 training activities offered to a variety of stakeholders, including Bank Group personnel and partners[26] in 11 client countries. OII also provided input to the mandatory training of the IDB Ethics Office for Bank employees to promote staff awareness of the importance of reporting prohibited practices. In addition, as part of the services it provides to IDB Invest, OII provided three separate integrity due diligence trainings for new hires and a separate training for Country Representatives. OII developed (i) an online IDD toolkit, which provides detailed guidance regarding IDD for all investment officers, and (ii) two videos to be used in ongoing IDD training for IDB Invest staff.

2.19 To continue sharing lessons learned more effectively and raising awareness about the importance of integrity in Bank-financed activities, OII created a communication strategy by developing targeted communication products which include an integrity bulletin distributed to operational staff on a regular basis. This bulletin addresses specific cases that contribute to our staff's capacity to better manage integrity risk in the operations they supervise. In 2017 OII issued eight integrity bulletins.

[26] Partners include government executing agencies, chambers of commerce, industry representatives and external auditors.

Table 3

Number of Trainings and Outreach Activities by Category

Type of activity	Number
Orientation Seminar	7
Integrity in IDB Group-Financed Operations	14
Integrity Risk Management	1
Integrity in IDB Group-Financed Operations for external audiences	6
Integrity Risk Management in IDB Group-Financed Operations	6
Contribution to Ethics Course	1
Integrity Due Diligence (IDD) Orientation	3
Contribution of Representatives to IDD	1

e. Policy Development and Related Work

2.20 In 2017, OII and RMG developed a proposal for an AML Framework for the IDB. The Framework proposes establishing OII as the compliance function for AML/CFT matters.

2.21 OII provided comments on the Guidelines to Process the Bank's SG Loan Based on Results to ensure that project teams preparing these operations consult with OII regarding integrity indicators that call for mitigation measures. OII also ensured that the Guidelines stipulate that the Bank retains authority to investigate and sanction, with adjustments required for these types of operations.

2.22 OII concluded an Integrity Risk Analysis of contractual amendment requests in works contracts financed by the Bank. The analysis aimed at providing operational staff with information regarding the integrity risks that could arise in the process of amendment and also offered suggested possible mitigation measures.

2.23 At the request of the Office of Evaluation and Oversight (OVE), OII provided input for a Country Program Evaluation as allegations of prohibited practices and integrity risks in that particular country were being considered for the evaluation. OII also offered its insight for the recommendations made by the evaluation to strengthen integrity in the respective Country Strategy.

2.24 OII also provided comments to eight Sector Framework Documents to recommend that integrity considerations from our lessons learned be incorporated into the sector strategies to ensure stronger integrity risk management in their operations.

f. Other Outputs and Activities

2.25 As a member of the Steering Committee of the Bank's Transparency Trust Fund, OII participated in the review of proposals of seven initiatives that support the design and implementation of transparency and anti-corruption policies, mechanisms, and tools in borrowing member countries, to make recommendations about their eligibility for receiving funding.

2.26 To commemorate International Anti-Corruption Day in 2017, OII, the SNO and SNC, together with the Innovation in Citizen Services Division (ICS) and the Office of External Relations (EXR), once again organized an event with the objective of using art and entertainment to raise awareness among IDB staff and reflect on how corruption negatively impacts development in Latin America and the Caribbean. This followed the models of well-received events in previous years for reaching a wider audience.

WE RAISE AWARENESS ABOUT THE IMPORTANCE OF INTEGRITY IN BANK-FINANCED ACTIVITIES

2 INVESTIGATION OUTPUTS

	2017	
Complaints processing	Carried from 2016: 13 New: 119 Total: 132	Preliminary investigations: 27 Closed: 89 Carried to 2018: 16
Preliminary investigations	Carried from 2016: 9 New: 27 Total: 36	Converted to full inv.: 10 Closed: 9 Carried to 2018: 17
Full investigations	Carried from 2016: 16 New: 10 Total: 26	Unfounded: 1 Unsubstantiated: 5 Substantiated: 8 Carried to 2018: 12
Post-investigations	Carried from 2016: 9 New: 7 Total: 16	SOCs submitted: 11 Carried to 2018: 5

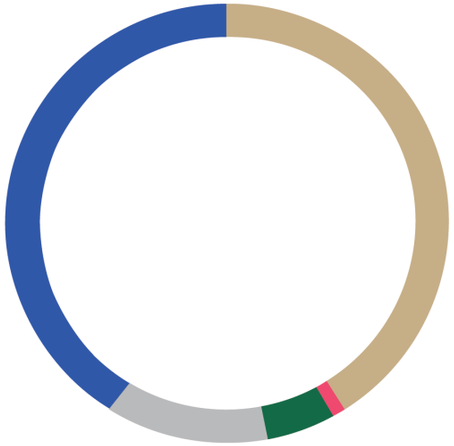
Figure 12

OII's Investigative Caseload for 2017[27]

2.27 Pre-Investigations – complaints processing. In 2017 OII received 119 new complaints. Figures 13 and 14 show the sources of complaints and country clusters from which they originated. The distribution is similar to previous years, when complaints also originated from all IDB regions and were largely submitted by third parties. The percentage of anonymous complaints is also similar to that of previous years.

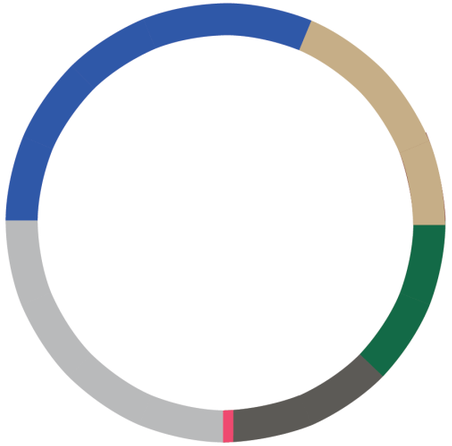
[27] One investigation was not carried over to the post-investigation phase based on a low triage rating that was applied to the investigation after the final results of the investigation could be assessed.

Figure 13
Sources of Complaints



Private Individual	Private Competitor	Bank Staff	Anonymous	External Organization
38%	19%	38%	10%	3%

Figure 14
Complaints by Region



CAN	CID	CSC	CDH	CCB	HQ
32% (38)	32% (38)	22% (26)	8% (9)	6% (7)	1%

2.28 Out of the 132 complaints (119 + 13 carried over from 2016) addressed by OII, 89 were closed. Of these, 65 were closed because the complaint did not involve a prohibited practice, nine because the information provided was insufficient or not credible, 13 because the complaint did not relate to a Bank-financed activity, and two because the complaints pertained to matters older than the Sanction System's 10-year statute of limitations.

2.29 Data from 2017 suggest that OII improved its efficacy in investigations. The pre-investigation phase is fulfilling its purpose of informing OII's decision by filtering for complaints that fall outside its mandate or otherwise do not merit full investigations. In fact, the percentage of complaints that were closed at the first phase of evaluation (67%) was higher than the average percentages observed since the intake unit was introduced (approximately 64% during 2013-2016). This efficacy in filtering enables investigators to focus their efforts on allegations where prohibited practices would have a more damaging impact on the respective projects, or complaints that are most likely to be substantiated.

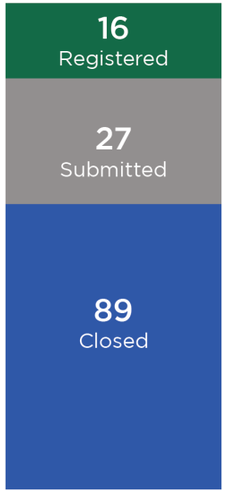


Figure 15

Status of complaints received

2.30 OII also improved efficiencies in the time spent processing matters involving allegations. When compared to 2016, OII took approximately 10% less time to process matters to be closed and 6% less time to convert matters to preliminary investigations. The time spent to convert preliminary investigations to full investigations increased by a negligible amount, a 1% increase in processing time.

2.31 **Full Investigations.** Data from 2017 show efficacy gains derived from the success of OII's filtering mechanisms and investigative efforts. As reflected in Figure 16, OII found that alleged prohibited practices were substantiated in 57% of completed investigations.

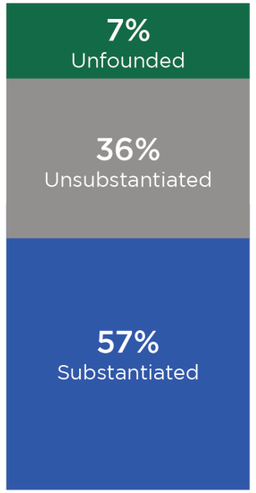


Figure 16

Outcomes of investigations conducted in 2017

2.32 Of the eight substantiated cases, some of which involved multiple prohibited practices, six involved fraudulent practices, three presented corruption, two entailed collusion and one included obstructive practices. In five of the substantiated investigations, OII uncovered significant findings of wrongdoing by executing agency officials. These findings were particularly valuable to operations staff as they resulted in lessons learned for the Bank and spurred remedial actions applicable to several programs.

2.33 Regarding processing times, the data demonstrate a 5% increase in the time taken to close unfounded and unsubstantiated investigations and a 20% increase for closing substantiated investigations. The overall increase in processing time is attributed to the fact that 42% of all full investigations were considered complex, thus requiring more investigative steps, techniques and analysis to complete each case.

2.34 **Post-Investigations.** OII's productivity in the post-investigative phase improved in 2017. As shown in Figure 17, OII submitted to the SO 11 SOCs, three Requests for Negotiated Resolutions, one Request for Temporary Suspension and replied to two appeals. For purposes of comparison, Requests for Negotiated Resolutions can be likened to SOCs. When compared to the previous three years, OII improved production of SOCs (including Requests for Negotiated Resolutions) by 40% from the average for 2014-2016 (10). OII's efficacy was also present in the high success rate: 89% of final determinations resulted in a sanction.

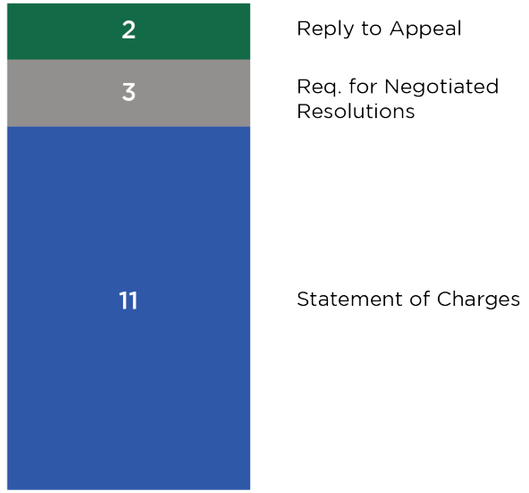


Figure 17

OII submissions to SO and SNC in 2017

3 SANCTIONS OFFICER OUTPUTS

2.35 All cases reviewed and decided by the SO during 2017 were concluded under the current Sanctions Procedures which took effect on June 9, 2015. The SO's outputs for 2017 are detailed below.

2.36 **Statements of Charges.** During 2017, the SO received 11 SOCs from OII, one Request for Temporary Suspension (RTS) and three Requests for Negotiated Resolution Agreements. These SOCs were added to 10 SOCs that were carried over from 2016, totaling 21 SOCs, one RTS and three Requests for NRAs for review within the year. Each SOC can involve multiple Respondents, which will generate individual cases: one per Respondent. In total, the SOCs, the RTS and the Requests for NRAs involved 62 Respondents.

2.37 **Notice of Administrative Actions.** Upon review of the SOCs, the SO must determine whether the SOC warrants the initiation of administrative sanctions proceedings and therefore the issuance of a Notice of Administrative Action (NAA) — one per Respondent. If the SO determines that an NAA should be issued, the SO has the responsibility of notifying each Respondent via certified mail or courier services.

2.38 During 2017, the SO issued 40 NAAs and notified a total of 34 Respondents (compared to 39 NAAs issued in 2016 to 57 notified Respondents). During 2017, the SO published five Constructive Notices on the webpage (compared to 27 Constructive Notices in 2016), which are issued when the Respondent cannot be reached through mail or courier.

2.39 **Notification Process.** An SO Notice informs the Respondent that Sanctions Proceedings are beginning. The respondent then has 60 calendar days to submit a Response to the SO's Notice. The Notices are issued following procedures that seek to ensure that all Respondents receive the Notices, have an opportunity to submit a Response, and also ensure the efficiency and effectiveness of communications between the Office of the SO and the Respondents.

2.40 **Contested Cases and Responses Received.** Under the Sanctions Procedures, Respondents can contest the NAA by submitting Responses. Upon an in-depth review of the SOC and the Responses, the SO must determine if he/she will require that the parties submit additional information before issuing a Determination. During 2017 the SO received 21 Responses. Fourteen of these Responses were reviewed and in 13 cases, the SO issued Determinations against the Respondents while in one case, the SO decided in favor of the Respondent. The remaining seven cases are still under review by the SO.

2.41 **Records to File.** In 2017, the SO issued 28 Records to File within the ongoing cases. Records to File allow the SO to account properly for documentation submitted, extend deadlines and decide filed motions, ensuring due process and equal access to information by all parties.

2.42 **Determinations.** During 2017, the SO issued 50 Determinations (compared to 36 in 2016). In 46 of these Determinations, sanctions were imposed, of which 14 are final and 32 Determinations can be appealed. Six of these 32 Determinations have been appealed to the Sanctions Committee and Decisions have been issued.

2.43 With regards to the remaining four Determinations that did not result in sanctions, one Determination was in favor of the Respondent, another granted a Temporary Suspension against four respondents, and two resulted in Negotiated Resolution Agreements.

2.44 **Sanctions Imposed.** During 2017, 18 sanctions imposed by the SO became effective, of which four had been issued in 2016. All of the aforementioned sanctions met the criteria of the Agreement on Mutual Enforcement of Debarment Decisions (Cross Debarment Agreement) and were notified for cross debarment by the MDBs. Out of the 46 sanctions imposed in 2017, six sanctions were for collusion, 11 were for both collusion and fraud and 29 were for fraud.

2.45 **Response Time.** During 2017, Determinations issued by the SO took 302 days on average, an increase of 117 days in comparison to 2016. This was due to the increase in the number of determinations issued and the fact that all cases were handled under the new Sanctions Procedure which included responses and additional requests of information issued by the SO to the respondents. In addition, as in 2016, a significant number of cases required slightly enhanced scrutiny, due to the more complex nature of collusion cases. The SO issued Determinations in English or Spanish in accordance with each Respondent's native language.

4 OUTPUTS OF THE SANCTIONS COMMITTEE AND ITS EXECUTIVE SECRETARIAT

2.46 Key milestone. 2017 was the first year when all decisions by the Sanctions Committee were made applying the Sanctions Procedures as amended in 2015.

2.47 **SNC Executive Secretariat's Outputs.** During 2017 the Executive Secretary processed 16 appeals from Respondents on cases related to fraud and collusion. Seven of these appeals were filed in 2017, while the remaining nine were presented in 2016. The SNC decided 15 of these Respondents' appeals in 2017 and the decision for the remaining appeal is expected in early 2018.

2.48 The Secretariat also has reviewed submissions related to compliance with four decisions associated with conditions issued by the SNC in previous years that involved sanctions of debarment with conditional release.[28] The total compliance of the four decisions associated with conditions should be met in 2018.

2.49 Furthermore, the Executive Secretariat drafted 100 communications (i.e., related to debarments, cross debarments, decisions associated with conditions) and referred them to OII, Respondents, Country Representatives and Executive Directors.

2.50 **Sanctions.** In 2017 the SNC issued 15 Decisions, imposing sanctions in 12 of them as indicated in Figure 18. The nature of the sanctions and years of debarment imposed are summarized in Figure 19, below.

[28] Debarment with Conditional Release is a determination that debars a Respondent for a defined period, which may be reduced or terminated upon compliance with certain conditions.

Figure 18

SNC Decisions 2015-2017

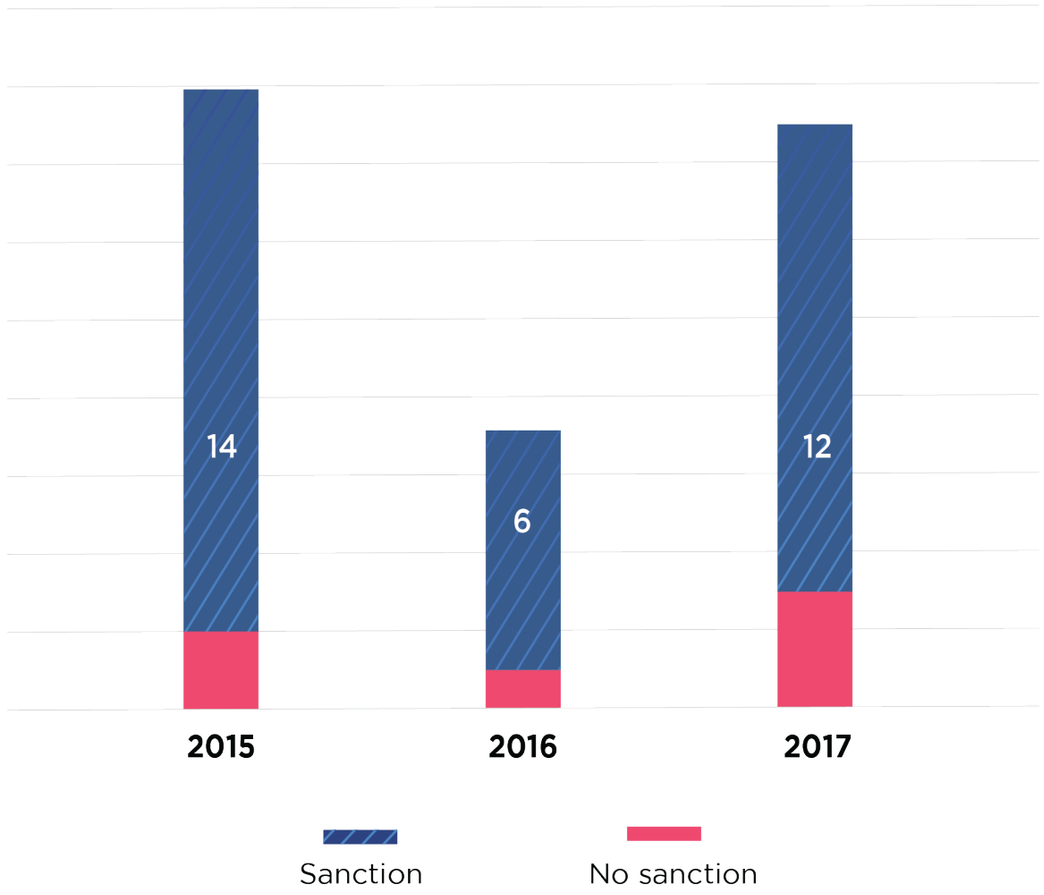
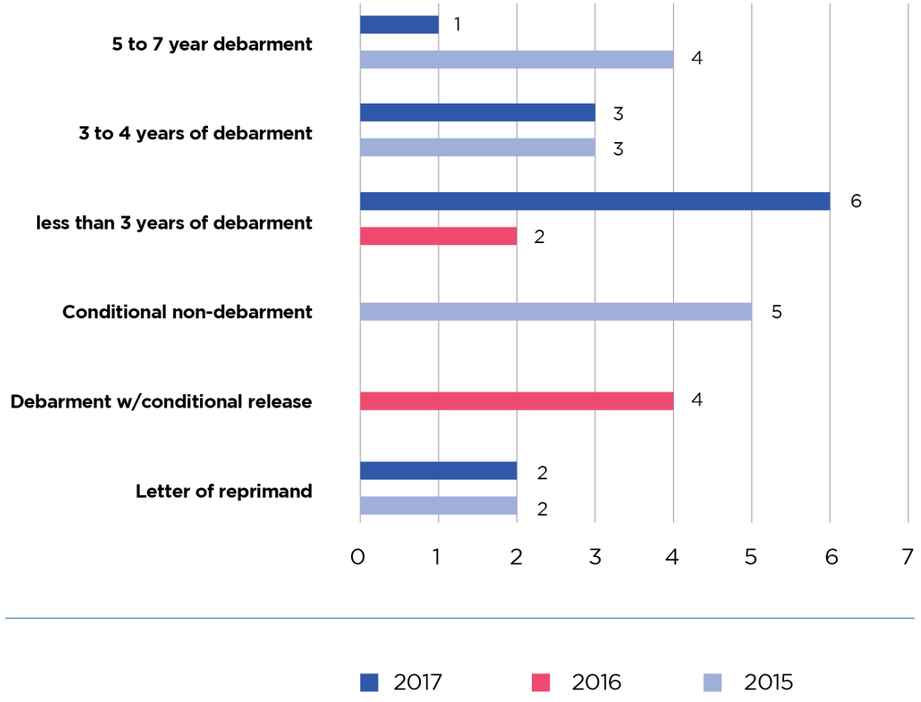


Figure 19

Distribution of SNC Sanctions
2015-2017



2.51 **Cross Debarment Agreement.** The 10 debarments issued by the SNC met the requirements for cross debarment and were communicated to the other MDBs.

2.52 **List of sanctioned firms and individuals.** As the administrator of the list of Sanctioned Firms and Individuals, the Executive Secretariat published the 28 debarments (18 issued by the SO and 10 issued by the SNC) imposed by the sanction system and the 131 debarments that were imposed by other MDBs (100 from the WBG, eight from the ADB, eight from the AfDB and 15 from the EBRD) and recognized by the IDB Group under the Cross-Debarment Agreement (See Appendix I for a detailed list of the entities and individuals sanctioned in 2017).

PART III
REFLECTIONS FOR THE FUTURE

1 ACKNOWLEDGEMENT OF CURRENT CHALLENGES

3.1 Before creating OII and the Sanctions System, the IDB Group understood that fraud and corruption pose impediments to achieving development objectives. However, the IDB Group had not developed structures nor mandated its employees to address fraud and corruption directly. Instead, corruption at the governmental level was seen exclusively as a domestic issue for the member country.

3.2 Once the Systemic Framework was in place, the IDB Group began the process of driving a cultural shift, empowering employees to take action against fraud and corruption in IDB Group-financed activities. During the last 15 years, Zero Tolerance approaches, robust anti-fraud and corruption prevention and response mechanisms, and the use of IDB Group-financing to promote good governance in the region have become a standard practice in the IDB Group.

3.3 Adoption of the Systemic Framework reflected an understanding of mounting public frustration with corruption and helped foster important discussions at the international level at a time when such issues were controversial and infrequently pursued or punished. In recent years, enforcement of anti-corruption codes by national authorities and the public's expectations regarding governmental accountability and corporate responsibility have become much more evident.

Arrests of corporate executives and government officials in the region have exposed the vast reaches and detrimental impact of corruption, validating the need for robust and innovative integrity-driven approaches in the IDB Group.

3.4 At present and for the foreseeable future, the challenge for the IDB Group's integrity agenda will be to remain innovative in the field of anti-corruption and to anticipate and prevent integrity risks. Recent trends in the region and in the work of OII and the Sanctions System indicate that "prohibited practices" no longer consist merely of simple falsification of credentials or documents, but that we are also facing conduct committed by large entities with complex multinational corporate structures and intricate international financial networks. In addition, international best practices now operate under an expanding notion of compliance and prevention, which should be applied internally within the institution and to the due diligence, prevention, investigations and sanctioning work conducted on IDB Group operations.

3.5 In investigations, this entails keeping up with technology and increasingly sophisticated methods utilized by corrupt actors, a thorough understanding and anticipation of national and international trends in anti-corruption and steadfast responses to the demand side of corruption by scrutinizing parties accused of extracting bribes in exchange for favor and influence. These tasks require progressing to a higher level of engagement with national authorities and potential information sharing through cooperation agreements[29], relationships which have already proved valuable to OII where they exist.

[29] The Cooperation Agreements signed thus far between OII and national authorities or international organizations include those listed in Appendix II.

3.6 In the arena of private sector due diligence, OII must respond to the growing demand for its expertise in analysis and developing mitigation strategies as a component of operational visibility. This is particularly evident with regard to IDB Invest operations, which are increasing in both number and complexity. In addition, OII is poised to take on a new Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) compliance function for the IDB, pursuant to an AML Framework that has been proposed by OII and RMG. Once approved, this new role would entail an expansion in the scope of OII's due diligence and compliance work. Finally, it seems likely that OII's role as an expert advisor to ORP and MIF will expand to other units and grow more complex over time.

3.7 In sovereign operations, OII must continue fostering productive dialogue between the prevention and investigation functions and project teams. In 2018, the IDB is updating its methodology for managing risks, including integrity risk, in new operations. This approach will require project teams to evaluate corruption as a risk and adopt mitigation measures accordingly. As this role matures, OII will work to convert data about previous instances of prohibited practices into actionable indicators of future risk. As a separate risk mitigation measure for projects in execution, OII will be called on to increase its ability to respond to project team requests to develop the capacity of executing agencies through specialized integrity training or other recommended measures.

3.8 Finally, no risk management strategy would be complete if the risks and corresponding measures for mitigation are not properly communicated to relevant stakeholders. Better disclosure of integrity risks will help the Bank Group's governance bodies fulfill their fiduciary duty. It will also be important to intensify supervision of programs by staff and strengthen other supervisory mechanisms with a risk-based approach.

3.9 In an environment of scarce resources and mounting public demand for action, risk management is a collective responsibility. OII and the Sanctions System will continue evolving in order to advance the IDB Group's ability to mitigate risk and increase the costs of fraud and corruption in its development programs.

2 THE SEEDS OF INTEGRITY: THE LASTING LEGACY OF SANCTIONS

3.10 How far have we come? Measuring success of the Sanctions System is not clear-cut. What is certain is that the Sanctions System has planted the seeds of integrity. Understanding the objective of the system is key to determining its reach.

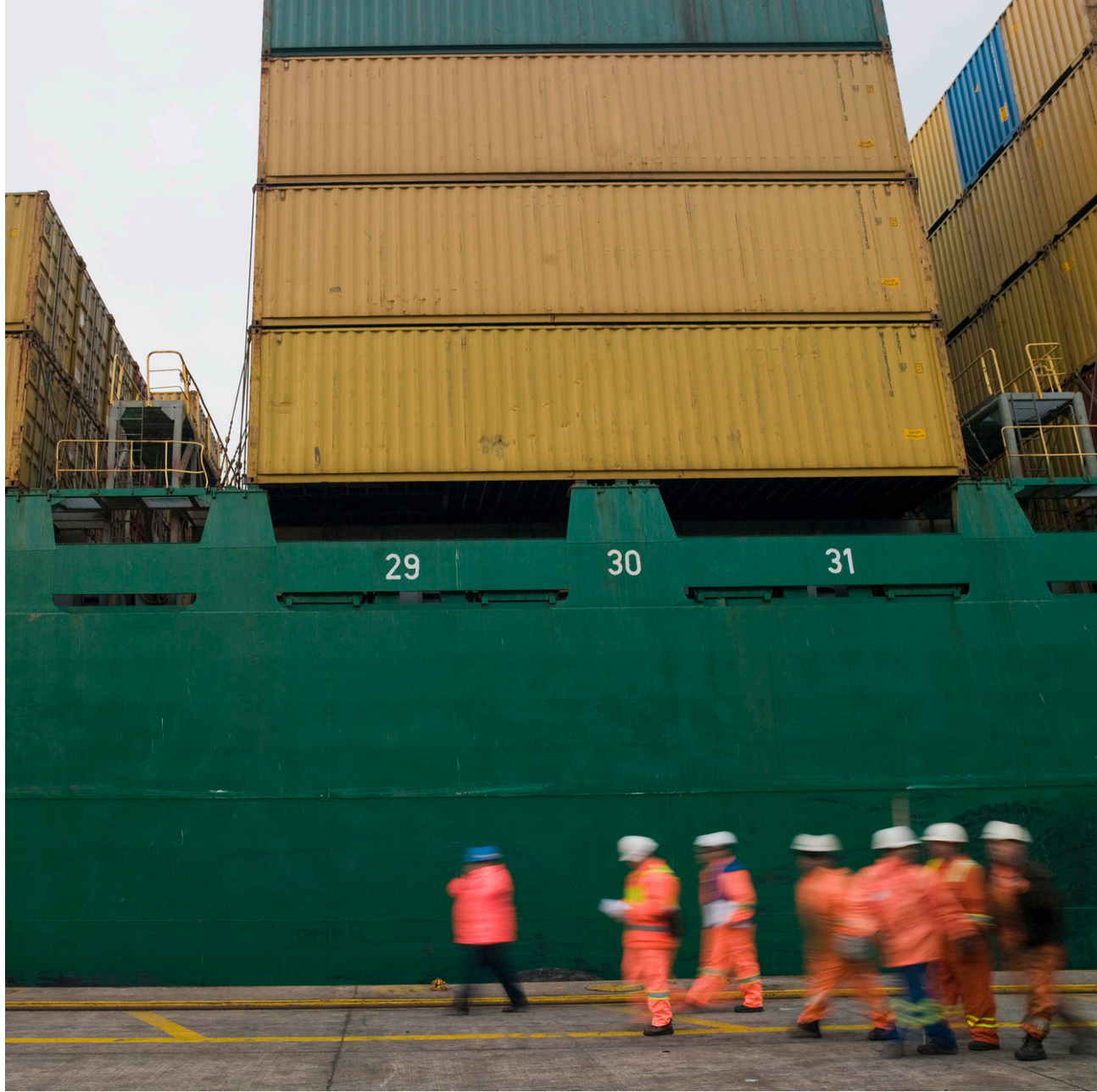
3.11 Some say the purpose of the Sanctions System is to deter potential wrongdoers from committing prohibited practices, and as such, the successful investigation and sanctioning of cases involving large corporations ("big cases") is the best deterrent. Hence, measuring the success of the System should be based on the number of big cases adjudicated by the System every year.

3.12 However, most of the cases that are investigated and sanctioned by MDBs, including the IDB Group, involve small and medium enterprises (SMEs). This is due to the nature of the projects and operations financed by these institutions. The programs of MDBs require that works, goods and services be provided to underserved populations in local and regional markets where development is needed. Consequently, SMEs are often best suited to undertake these tasks, due to their proximity to the target populations. The hiring of local SMEs to undertake IDB Group projects, in turn, helps promote development by building local capacity, fortifying markets and strengthening executing agencies. A significant part of development work has to do with generating employment locally while building local know-how.

3.13 SMEs are an integral part of development work, and accordingly, should be the primary audience that receives the message of deterrence from the Sanctions System. The "big cases" are not the best examples for deterring SMEs because they involve corporations to which they cannot relate—they operate on a much larger scale and may not be working in the regions where SMEs do business. Instead, SMEs should receive the message of deterrence from executing agencies first because, once they learn a firm is engaged in a Prohibited Practice, they will adapt their procedures to exclude companies known for corruption from business dealings. Second, the mere knowledge that SME peers that have faced investigation and sanctions could be barred from contract biddings also acts as a deterrent. In sum, deterrence is effective in the arena of SMEs because the companies see the consequences of misdoing by peer companies and that leads them to alert other firms or avoid the consequences themselves.

3.14 The objective of the Sanctions System should not rely solely on the imposition of sanctions as the means of deterrence. Sanctions should also play a rehabilitating role. Depending on the gravity of their actions and the context where they operate, some local and regional SMEs are given the opportunity to change how they conduct business. By imposing conditions as part of the sanctions, the Sanctions System allows SMEs to learn from their mistakes and improve their business practices. This creates the opportunity for the companies to become agents of change for their peers and communities and sparks positive influences on the market in which they operate by making integrity one of the variables that is considered in development projects.

3.15 Rooting out fraud and corruption requires promoting behavioral change by all actors in IDB Group-financed operations, and ultimately this will help make markets more open and establish more level playing fields. Behavioral change through deterrence and rehabilitation are the seeds planted by the Sanctions System. However, more must be done to effect change. There is broad scope for ensuring that the message of deterrence is amplified. Providing direct support to companies with education and awareness trainings and increasing the capacity of executing agencies to counteract prohibited practices are also worthy goals. The Sanctions System's seeds of deterrence and rehabilitation, coupled with measures to spread the integrity message, are the essential elements for achieving long-lasting change in the area of integrity.



APPENDIX I

Entities and Individuals Sanctioned in 2017

Name	Entity Type	Nationality	Country Project	Inelegibility From	Inelegibility to	Grounds
Constructora Sualeman, S. de R.L. de C.V.	Firm	Honduras	Honduras	Feb/14/17	Feb/13/2023	FP
Eli David Suárez Ramírez	Individual	Honduras	Honduras	Feb/14/2017	Feb/13/2023	FP
Leticia Adelina Alfaro Alemán	Individual	Honduras	Honduras	Feb/14/2017	Feb/13/2023	FP
Manuel Roldán León	Individual	Spain	Peru	Mar/16/2017	Mar/15/2022	FCP
David Pujol Maqueda	Individual	Spain	Peru	Mar/16/2017	Mar/15/2022	FP
Grupo Sotoval de Construcciones y Proyectos S.L.	Firm	Spain	Peru	Mar/16/2017	Mar/15/2022	FP
Juan Pablo Arconada García	Individual	Spain	Peru	Mar/16/2017	Mar/15/2022	FP
CAMELAZ	Firm	Bolivia	Bolivia	Jul/31/2017	Jul/30/2019	CP
Gabimet JL Gabinetes Metálicos	Firm	Bolivia	Bolivia	Jul/31/2017	Jul/30/2019	CP
L&A Venta de Muebles	Firm	Bolivia	Bolivia	Jul/31/2017	Jul/30/2019	CP
Braulio Lazo Mamani	Individual	Bolivia	Bolivia	Jul/31/2017	Jul/30/2019	CP

Name	Entity Type	Nationality	Country Project	Inelegibility From	Inelegibility to	Grounds
Miriam Aguilar Herrera	Individual	Bolivia	Bolivia	Jul/31/2017	Jul/30/2019	CP
Lidia Aguilar Herrera	Individual	Bolivia	Bolivia	Jul/31/2017	Jul/30/2019	CP
Constructora VRB E.I.R.L.	Firm	Peru	Peru	Aug/3/2017	Aug/2/2022	FP
Imelda Díaz Flores	Individual	Peru	Peru	Aug/3/2017	Aug/2/2022	FP
Consultora y Constructora Robles S.A.C.	Firm	Peru	Peru	Aug/3/2017	Aug/2/2022	FP
Servicios de Ingeniería Coldesa S.A.C.	Firm	Peru	Peru	Aug/3/2017	Aug/2/2022	FP
Diego Alejandro Huaranga Bernal	Individual	Peru	Peru	Aug/3/2017	Aug/2/2022	FP
Alejandro Huaranga Robles	Individual	Peru	Peru	Aug/3/2017	Aug/2/2022	CP
Jorge Daniel Espínola Vargas	Individual	Paraguay	Paraguay	Dec/7/2017	Dec/6/2019	FP
Invepar Construtora Ltda. (CNPJ: 20.182.043/0001-42)	Firm	Brazil	Guyana	Dec/29/2017	Dec/29/2030	FCP
Vevakanand Dalip Enterprise	Firm	Guyana	Guyana	Dec/29/2017	Dec/29/2030	FCP

Name	Entity Type	Nationality	Country Project	Inelegibility from	Inelegibility to	Grounds
Vevakanand Dalip	Individual	Guyana	Guyana	Dec/29/2017	Dec/28/2030	FCP
Sabrina Mary Williams	Individual	Guyana	Guyana	Dec/29/2017	Dec/28/2030	FCP
MAQCO S.A. DE C.V.	Firm	El Salvador	El Salvador	Dec/29/2017	Dec/28/2030	FCP
Jose Alfredo Menjivar Alberto	Individual	El Salvador	El Salvador	Dec/29/2017	Dec/28/2030	FCP
Maria Angela Moran Cortez	Individual	El Salvador	El Salvador	Dec/29/2017	Dec/28/2030	FCP

Legend

Debarment imposed by Sanctions Officer	
Debarment imposed by Sanctions Committee	
Fraudulent Practices	FP
Collusive Practices	CP
Fraudulent and Collusive Practices	FCP

APPENDIX II

Cooperation Agreements

The Cooperation Agreements signed to date between OII and national authorities as well as international organizations include the following:

- Caribbean Development Bank.
- Brazilian Federal Prosecution Service.
- Nordic Development Fund.
- United Nations Development Program (UNDP).
- Comisión Nacional de Mercados y Competencia (CNMC, Spain).
- Conselho Administrativo de Defesa Econômica (CADE, Brasil).
- Comisión Federal de Competencia Económica (COFECE, Mexico).
- European Anti-Fraud Office (OLAF).