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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK AND IDB INVEST

**OFFICE OF INSTITUTIONAL INTEGRITY AND SANCTIONS SYSTEM
ANNUAL REPORT 2019**

This document was prepared by the Office of Institutional Integrity, the Sanctions Officer, and the Executive Secretary to the Sanctions Committee (under supervision of the Chairperson of the Sanctions Committee and with the input of the members of the Sanctions Committee).

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ANNUAL REPORT 2019

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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

EBRD European Bank for Reconstruction and Development

EA Executing Agency

EIB European Investment Bank

FATF Financial Action Task Force

IDB Inter-American Development Bank

IDD Integrity Due Diligence

IFI International Financial Institution

IIC Inter-American Investment Corporation

MDB Multilateral Development Bank

NRA Negotiated Resolution Agreement

NSG Non-Sovereign Guaranteed

OII Office of Institutional Integrity

ORP Office of Outreach and Partnerships

RMG Office of Risk Management

SG Sovereign Guaranteed

SLA Service Level Agreement

SNC Sanctions Committee

SO Sanctions Officer

WBG World Bank Group

Preface by the Chairperson of the Sanctions Committee

Over the past ten years, the Inter-American Development Bank (IDB) Group's Sanctions System has become one of the leaders amongst the International Financial Institutions (IFIs), introducing change and innovation in its methodology and procedures, and bolstering the IDB Group's anti-corruption efforts in Latin America and the Caribbean. Addressing the devastating effects of fraud and corruption in development projects has been at the forefront of the IDB Group's agenda. The Sanctions System, composed of both the integrity office "OII" and the sanctioning offices (Sanctions Officer and Sanctions Committee), has been one of the fundamental tools at the IDB Group's disposal. Since its inception in 2011, the two-tier adjudicative system has made great strides in streamlining the sanctioning process while also enhancing the due process afforded to respondents. During my ten-year tenure as a member of the Sanctions Committee and six as its Chairperson, I had the opportunity to witness and participate in many of these changes.

First and foremost, the volume of investigations has gradually increased, as has their complexity. This is thanks in part to the triage system which OII adopted in 2013. This triage system has allowed OII to concentrate its resources on credible allegations that, if proven, would have the greatest impact on IDB Group operations, our clients and beneficiaries. As a result, the investigative product delivered by OII to the Sanctions System has grown in volume, complexity and quality. The Sanctions System now routinely considers complex collusion and corruption cases, whereas prior to 2011, the allegations in most cases were fraudulent misrepresentations of experience and misrepresentation of financial condition in procurement processes.

The Sanctions System today is comprised of cases that not only relate to the procurement process, but also to the execution of contracts, which is at the heart of IDB Group-financed operations. This has allowed the System, and in particular OII, to provide valuable feedback to the operational units of the IDB Group, advising in both project design and supervision. As a result, the Sanctions System, along with OII's prevention services, has evolved into a partner that helps develop innovative strategies to manage risk. This has enhanced the IDB Group's ability and that of its partners to identify potential areas of improvement in fraud and corruption detection, resulting in a greater fulfilment of the IDB Group's fiduciary role of ensuring that its funds are utilized for their intended purposes.

In 2015, a comprehensive review of the 2010 Sanctions Procedures was launched that took into account the four years of experience of the System. Consequently, the existing two-tier system was further enhanced by providing respondents the opportunity to present arguments and evidence to the Sanctions Officer prior to the issuance of a determination. This change provides improved opportunities for all decision-making levels of the Sanctions System to hear from respondents.

Another change resulting from the 2015 issuance of the new Procedures was the introduction of a process for resolving cases through Negotiated Resolution Agreements (NRAs). This mechanism allows a party to seek a negotiated settlement when the party has provided substantial evidence

that facilitates the IDB Group's understanding of systemic prohibited practices or integrity risks to IDB Group-financed operations and/or information on significant prohibited practices of external or other parties. In creating this much needed tool, the IDB Group also contemplated the importance of having checks and balances by assigning to the Sanctions Officer the role of reviewing and deciding on OII's request for eligibility to negotiate with an investigated party, as well as providing the range of sanctions that OII shall refer to in its negotiations and subsequent agreements. As a result of adopting this new tool, OII has been able to undertake several negotiations and enter into two NRAs, including a milestone agreement in 2019.

In furtherance of the IDB Group's commitment to harmonize efforts with other IFIs, the IDB Group adopted various unified frameworks and entered into the Agreement for Mutual Enforcement of Debarment Decisions with the other major multilateral development banks. Accordingly, the Sanctions System has strived for consistency and clarity by applying generally accepted principles and guidelines for the imposition of sanctions. More recently, when appropriate, the Sanctions System has started to impose conditional sanctions, whereby the respondent is required to implement compliance programs or remediate weak or ineffective ones before the sanction can be terminated. The respondent's compliance with the conditions set out in the decision is then monitored for an agreed period, whereupon the sanction of debarment can be terminated. This has enhanced the Sanctions System's toolbox, by providing an opportunity for respondents to address the underlying internal policies and procedures behind the sanctionable conduct and promote a better business environment in our member countries.

Finally, the Anti-Corruption Policy Committee (ACPC) approved a proposal that both the Sanctions Officer and the Sanctions Committee begin publishing synopses of all cases in 2019 and post them on the Bank's website. The publication of this information on the website provides key information related to adjudicated cases, outlines fact patterns, and educates the public about the types of behavior that qualify as sanctionable misconduct and the consequences of such misconduct.

As I depart the Sanctions Committee at the end of 2020, I want to especially thank President Moreno for his unwavering support to the Sanctions System and its independence. Also, I would like to extend my gratitude to OII's Chief, Laura Profeta, the Sanctions Officer, Juan G. Ronderos, the Executive Secretary of the Sanctions Committee, Edson Mori, and their predecessors, all of whom have harmoniously collaborated to ensure the success of our mission.

Andrés Rigo Sureda
Chairperson, Sanctions Committee

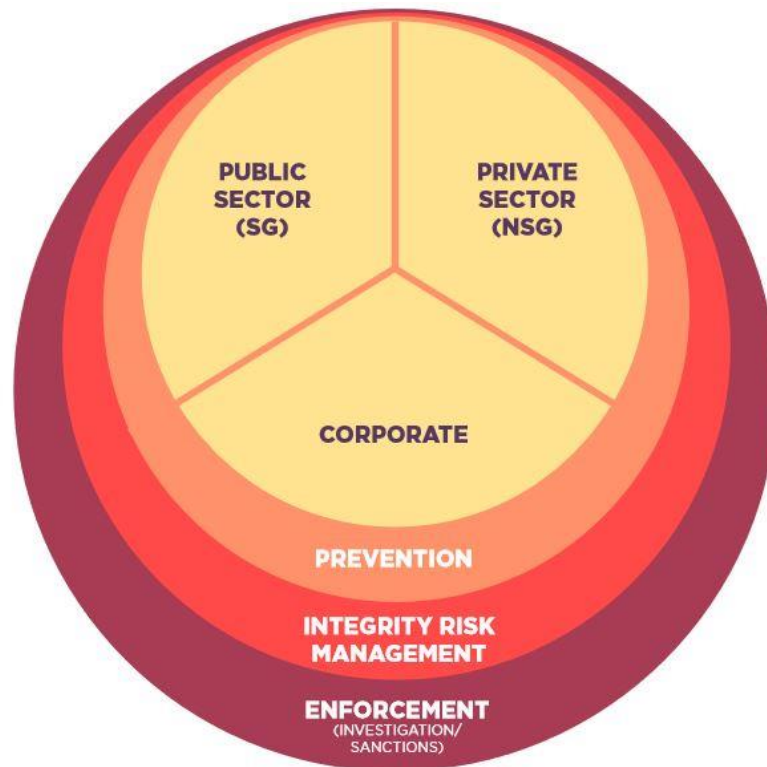
I. Introduction

A. Our Performance in 2019 at a Glance



B. Key Developments in 2019

- 1.1 **The 360 Degree Integrity Approach.** In an integrity environment that presented many challenges in 2019, the Office of Institutional Integrity (OII) and the Sanctions System continued to deepen their implementation of a coordinated 360-degree approach to protect IDB Group-financed activities. This approach protects Sovereign Guaranteed (SG) and Non-Sovereign Guaranteed (NSG) operations, as well as corporate projects and services, throughout the complete transactions cycle by developing and strengthening actions that prevent and mitigate integrity risks, and taking appropriate enforcement actions in the case of the occurrence of prohibited practices.



1.2 The following are some important highlights of the work by OII and the Sanctions System in 2019.

1. New Prohibited Practices Definitions:

In July 2019, the IDB Group approved two significant changes to the definitions of prohibited practices. The first was a modification to the definition of Obstruction to adopt a common definition agreed upon with other Multilateral Development Banks (MDBs). While the change is not material in terms of the elements of the prohibited practice, it is an important first step in an eventual harmonization of the definition for use in the cross-debarment arrangement with participating MDBs. The IDB Group was the first to adopt this new definition.

The second change was the creation of a new prohibited practice, “Misappropriation,” to close a gap not explicitly covered by the previous definitions and to further protect the IDB Group’s resources from misuse. The new definitions entered into effect on January 1st, 2020.

2. Cooperation:

OII continued to expand its network and cooperation with national authorities and international agencies. In 2019, OII interacted with at least 11 national authorities on investigative matters of mutual interest. These engagements varied from exchanges of information to the sharing of critical evidence required for OII investigations that have aided the uncovering of systemic integrity risks to IDB Group programs. In addition, OII signed new cooperation agreements with investigative bodies in Ecuador, France, and the United Nations Office for Project Services (UNOPS), and continued its very active engagement in harmonization efforts and exchanges of information with its counterpart offices in other MDBs.

3. OII's Input to the IDB's Update of Procurement Policies:

In 2019, the IDB approved an update to its project procurement policies. To ensure that the policies include provisions that permit OII to respond to the diverse integrity-related challenges in the region, OII provided inputs to the new policies as well as to the corresponding bidding documents and contract models. The updated procurement policies now incorporate the strengthened definitions of prohibited practices mentioned above, a new definition of conflict of interest, and, for the first time, the requirement that under certain circumstances executing agencies ask for a company's beneficial ownership information prior to a contract award.

4. A Significant Negotiated Resolution:

Three years after the IDB announced a new mechanism for negotiated resolutions of cases involving prohibited practices, OII concluded a large negotiated settlement resulting in the imposition of sanctions on 60 companies, all of which are part of a major conglomerate of construction and engineering businesses based in the region. As part of its investigation, OII uncovered significant corrupt practices in two major IDB-funded infrastructure projects. Aside from announcing the six-year debarment of one of the conglomerate's largest groups of subsidiaries, the settlement also resulted in the company committing to make monetary contributions to non-governmental organizations and charities serving communities in IDB Group member countries.

5. Implementation of the New AML/CFT Framework:

During the first full year of implementation of the IDB's new Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Framework, OII conducted AML/CFT risk assessments of all Headquarters business units and prepared recommendations for additional controls. This effort was carried out in parallel with the Office of Risk Management (RMG).

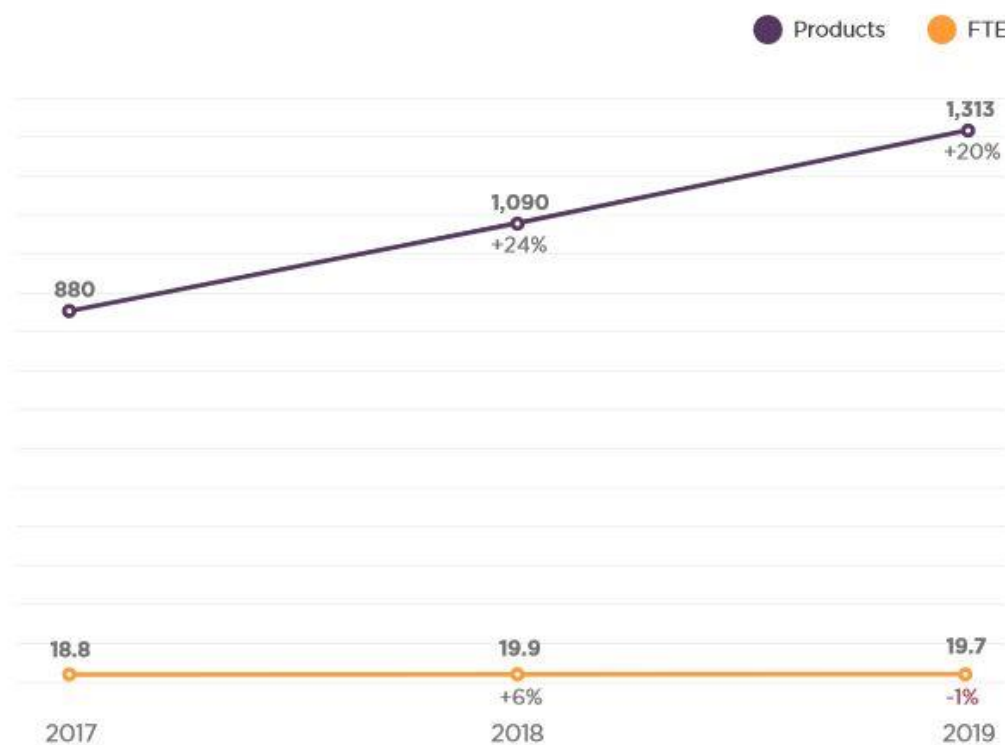
6. Publication of Decisions:

The Anti-Corruption Policy Committee (ACPC) approved a proposal, which became effective in 2019, to publish case summaries that outline salient facts and the corresponding sanction imposed, where applicable, as well as aggravating and mitigating factors considered in determining such sanctions. The case synopses are available on the Sanctions Committee's (SNC) public web portal. In 2019, the Sanctions Officer (SO) published case summaries related to both uncontested, first-tier proceedings and contested cases at the first-tier level that were not subject to appeal. The SNC also plans to publish summaries for all cases for which it issues decisions going forward, thereby contributing to the transparency of the Sanctions System.

1.3 **Use of Resources/Efficiency.** OII has been responding to the increased demand for its services with minimal increase in labor force. In 2019, OII continued to fully utilize available resources, executing 99% of its administrative budget and 100% of its Service Level Agreement chargeback. In addition to the labor force vs. work product data for the entire Office shown below, Figures 13, 14, and 15 in Section III of this report show important efficiency gains in investigation processing times in 2019, while maintaining a high level of complexity and increasing substantiation rates.

1.4 Figure 1 below shows the increase of OII's products achieved with a stable technical workforce.¹

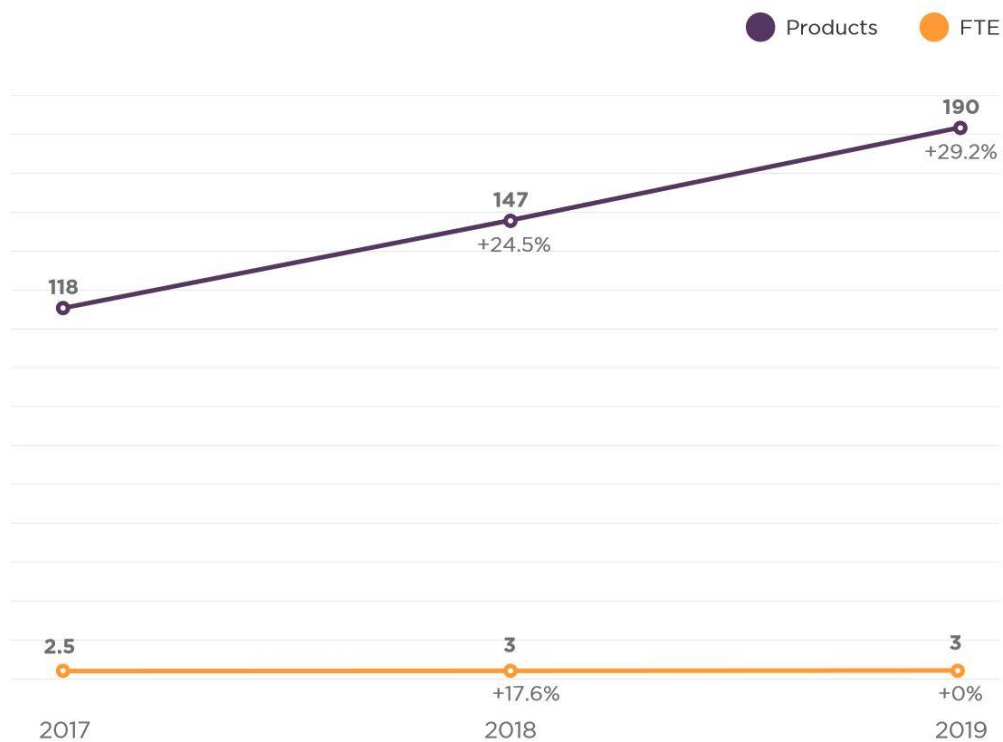
Figure 1. OII's Efficiency: Products/Year vs. FTEs (2017-2019)



¹ OII's products are defined as: for Prevention, the number of SG and NSG consultations, risk analyses, and trainings to internal and external parties; and for Investigations, completed or closed cases, closed matters, and submissions to the SO. Workforce is measured by the Full-Time Equivalent (FTE) of personnel (staff or consultants) devoted to these products.

- 1.5 The Office of the Sanctions Officer's (SO) caseload and corresponding outputs are driven by the number of sanction cases submitted by OII in a given year. The Office of the SO has seen an uptick in its inputs: the number of cases presented, number of respondents in the cases, as well as increased complexity in procedural requests at the first instance of the adjudication process.
- 1.6 Figure 2 shows that the Office of the SO has increased its output considerably, while maintaining the same uniform technical workforce during this period.²

Figure 2. SO's Efficiency: Products/Year vs. FTEs (2017-2019)



² SO's products are the following: Notices, Records to File, and Determinations. Workforce is measured by the Full-Time Equivalent (FTE) of personnel (staff or consultants) devoted to these products.

II. Prevention Results

- 2.1 In the context of a region where integrity and governance challenges remain, OII has continued to focus on developing policies, best practices and specialized mechanisms to ensure the deterrence of corruption and other prohibited practices in the projects the IDB Group finances, and to promote and strengthen integrity in the region.

A. Advice to Sovereign Guaranteed Operations

- 2.2 To manage integrity risks in SG operations, OII focuses on identifying and correcting weaknesses and vulnerabilities that could allow members of executing agencies, bidders, suppliers, contractors, consultants or other participants in IDB-financed operations to engage in prohibited practices or unethical behavior.

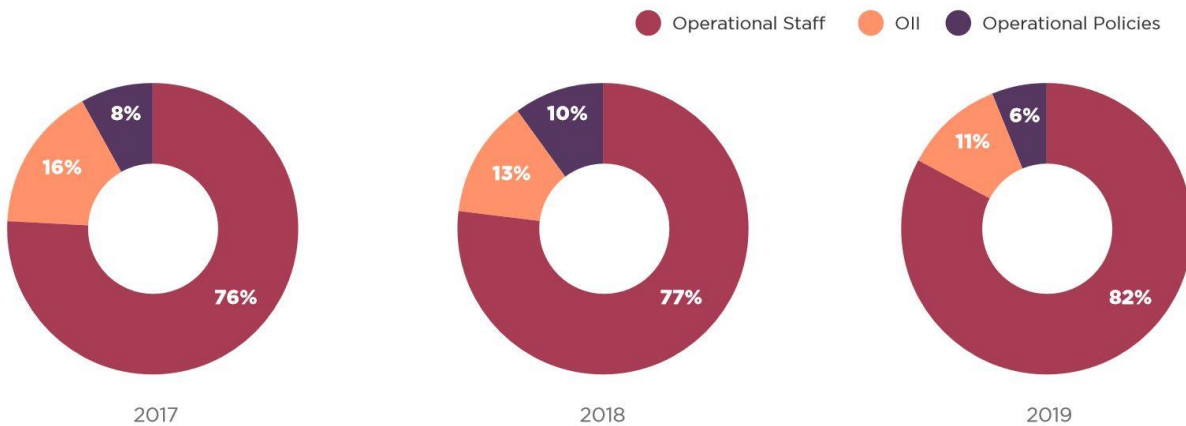
Figure 3. SGO Preventive Approach



- 2.3 In 2019, OII continued to observe an increase in the demand for its advice to prevent or mitigate integrity risks and their reputational impact on IDB-financed projects. Requests for advice increased not only in number but also in complexity.

- 2.4 **Consultations on Sovereign Guaranteed Operations.** Specifically, in 2019 OII handled 185 consultations related to SG operations. This figure is much lower than the actual number of engagements with project teams, as several of these consultations involved complex issues and therefore comprised multiple interactions.
- 2.5 The number of consultations in 2019 represents a 47% increase over 2018, when OII handled 126 consultations. The increase was largely driven by a greater awareness on the part of a wide range of personnel involved in the preparation and implementation of Bank-financed activities of the importance of responding to risk indicators, especially systemic risks. Based on anecdotal evidence, this greater awareness is due to both the increase in the profile that integrity issues have taken on in the region in recent years, as well as the training of Bank personnel provided by OII.
- 2.6 The main triggers for the consultations fell into the following three categories:
- (i) *Operational Staff requests:* Where project teams and Managers seek guidance on how to best assess and mitigate integrity risk and reputational impact.
 - (ii) *OII:* Where, in the course of assessing a complaint, investigating an allegation of a prohibited practice, or analyzing an NSG operation, OII staff coordinate closely with the OII SG preventive function because they have identified integrity risk indicators that require mitigation or SG preventive input.
 - (iii) *Compliance with the Bank's operational policies:* Where Bank operational policies require consultation with the SG preventive function, such as the Guidelines to Process Loans Based on Results (GN-2869-3) and the Guidelines for Project Risk Management for Sovereign Guaranteed Operations (OP-1699-1).
- 2.7 The distribution of consultations by trigger illustrates an increased recognition by IDB project teams, directly or based on consultations received from executing agencies, of the importance of addressing integrity risks as part of the project's general risk management. Consultations triggered by project teams and Management seeking guidance from OII increased from 97 in 2019 to 152 in 2020. The distribution of consultations triggered either by (i) compliance with the Bank's operational policies, or (ii) OII identifying indicators of integrity risk that warranted operational response remained mostly unchanged compared to 2018 (see Figure 4).

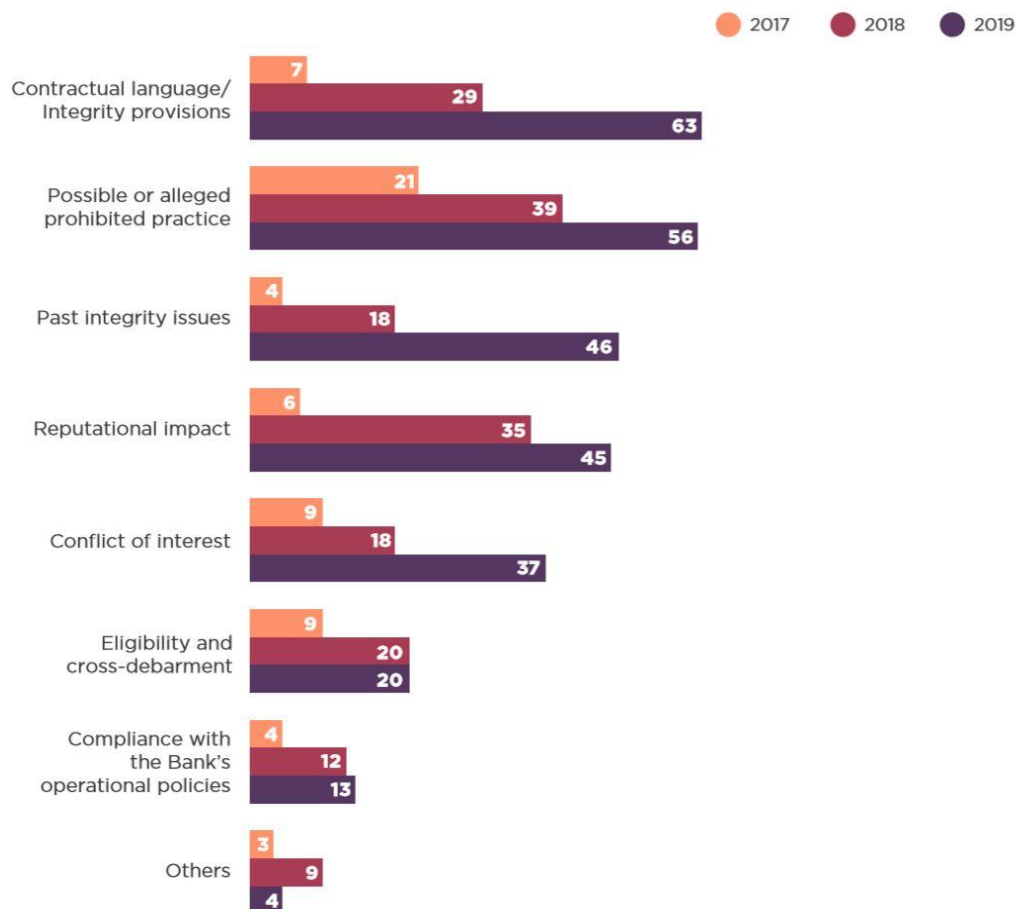
Figure 4. Numbers of Consultations by Trigger, 2017-2019



Note: Percentages might not add up to 100% because of rounding.

- 2.8 Figure 5 shows that the advice OII provided covered a variety of topics. The topic on which project teams most frequently consulted OII in 2019 related to whether IDB-financed contracts with third parties, including specialized agencies, as well as relevant documents regulating those arrangements, adequately incorporated integrity provisions that deter prohibited practices or allow OII to take corrective action if fraud and corruption take place.
- 2.9 Even though consultations from operational staff seeking OII's expertise on how to mitigate possible negative impacts on the Bank's reputation increased in absolute terms, their prevalence, as compared to other issues, decreased in 2019. This downward shift could be the result of executing agencies prioritizing integrity risk management themselves following the wave of national investigations in the region in recent years.

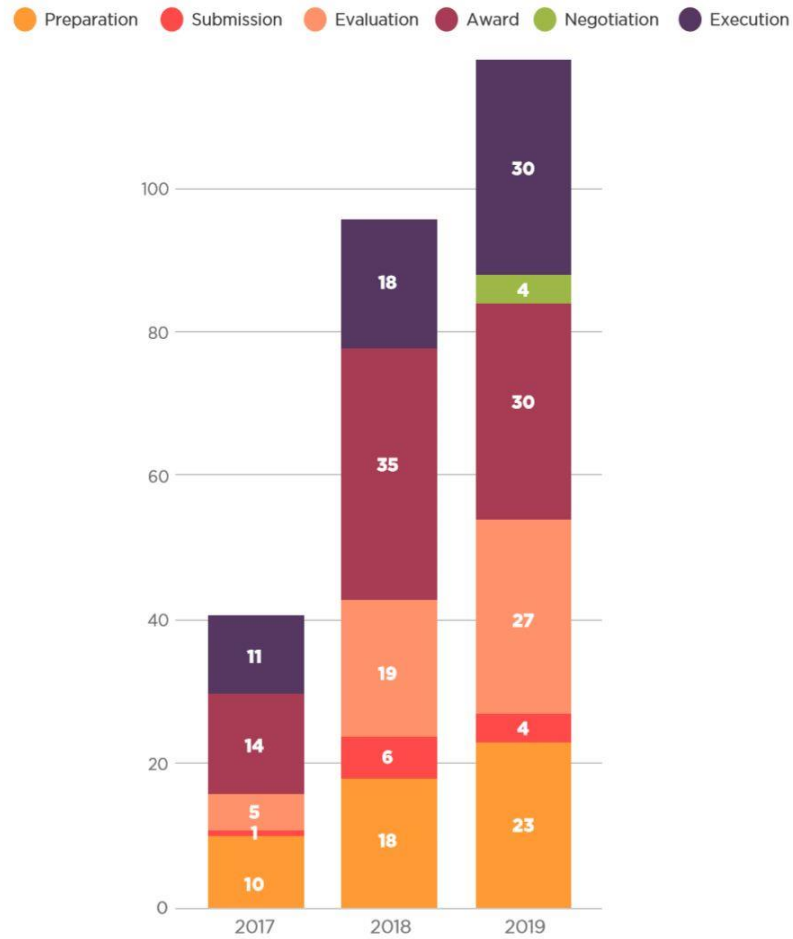
Figure 5. Issues Addressed in SG Consultations, 2017-2019



Note: Some consultations involved more than one issue, therefore the total number of issues is greater than the total number of consultations.

- 2.10 Of the 185 consultations handled by SG prevention in 2019, 126 occurred during the implementation stage of the programs. Those consultations called for advice regarding risk factors identified in procurement processes, and most answers required an analysis of red flags identified during the award and execution of contracts. Compared to 2018, there was a 27% increase in the number of consultations related to risk indicators detected during the execution of contracts (see Figure 6).

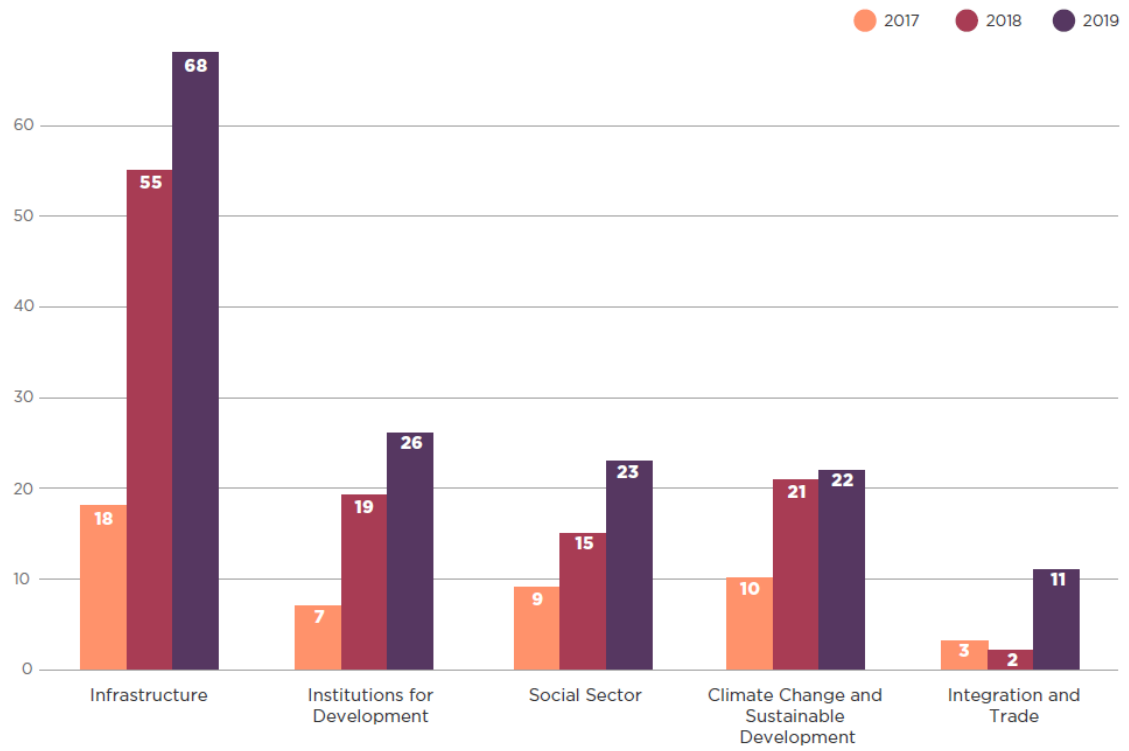
Figure 6. Consultations Throughout the Procurement Cycle, 2017-2019



Note: Figure does not include consultations related to issues outside the procurement cycle.

2.11 Figure 7 reflects the 2019 distribution of consultations arising in the five operational sector departments of the Bank, with the largest number originating from the Infrastructure Sector, continuing with the significant increase from that Sector that began in 2018. Although the Integration and Trade Sector continued to generate the lowest number of consultations, the increase in that sector over previous years was significant.

Figure 7. Consultations by Sector, 2017-2019



Note: Figure excludes consultations not related to a specific sector.

Beneficial Ownership

Relevant literature as well as international bodies and organizations highlight the importance of identifying ultimate beneficial owners of companies and other entities to mitigate integrity risk and its associated reputational impact (see for example the IDB's recent publication "[A Beneficial Ownership Implementation Toolkit](#)"). In this regard, in 2019 there have been significant developments for SG operations. The new procurement policies of the Bank, which were approved in 2019 and took effect on January 1, 2020, require that in international competitive bidding processes, executing agencies request beneficial ownership information from the company being recommended for award before the publication of the award of the contract. The information that shall be requested includes the names of those individuals who directly or indirectly: hold 25% or more of the shares of the company; hold 25% or more of the voting rights; or have the right to appoint a majority of the board of directors or equivalent governing body of the company selected for contract award. This information will be published by the borrower on the United Nations Development Business (UNDB) website and will be forwarded for publication on the website of the Bank.

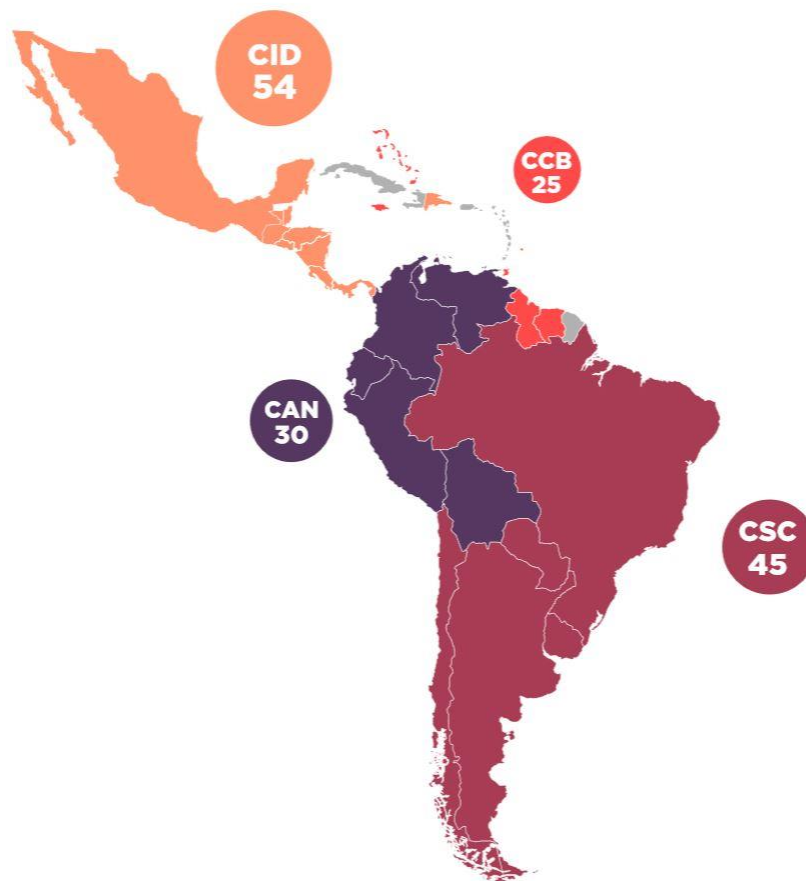
In NSG operations, beneficial ownership information continues to be an important component of know-your-costumer due diligence. The "IIC integrity Framework" establishes that in order to manage integrity risk and associated reputational and other impacts, IDB Invest shall conduct integrity due diligence (IDD) on its operations, that includes gathering beneficial ownership information. These guidelines require the identification and screening of all beneficial owners holding, directly or indirectly, five percent or more of the IDB Invest Counterparty. If the IDB Invest Counterparty or a beneficial owner of the IDB Invest Counterparty is publicly traded, the names of those owners of the publicly traded company holding a ten percent or greater interest in the publicly traded company are identified and screened. IDB Invest screens the ultimate beneficial owners of proposed counterparties through relevant databases to identify integrity risk indicators.

CASE STUDY 1
An Unsolvable Conflict of Interest

- **Issue:** During the evaluation of a selection process for a software development consultancy, the project team noted that the highest evaluated firm had listed the former Technology Director of the Executing Agency (EA) as a non-key staff technical advisor. The team later learned that while still in his official role, the Director was involved in the preparation of the Terms of Reference (ToR) of the consultancy, thus constituting a conflict of interest under the Bank's procurement policies. Since it was the only firm that surpassed the minimum qualification and the expert was a non-key staff member, the project team considered asking the firm to remove the technical expert in order to remediate the situation and requested OII's advice on their mitigation plan.
- **Assessment:** OII's assessment was that the conflict of interest could not be solved by requesting that the firm remove the former Technology Director. Given that the expert participated in the preparation of the ToR, any advice he gave the firm could have been tainted by "insider" knowledge to which he had access when working on the preparation of the bidding process. When the firm engaged him, it had an undue advantage over the other competing firms, which did not have the benefit of the expert's "insider" insights when preparing their proposals.
- **Recommendation:** OII recommended that the project team consider the negative reputational impact on the program and the Bank should the EA decide to award the contract to a firm that engaged the services of an expert who had a clear conflict of interest, as well as the possible integrity risk. Based on that guidance, the EA rejected all the proposals and decided to re-launch the selection process.

- 2.12 Figure 8 below illustrates the regional distribution of consultations according to where the programs are implemented.

Figure 8. Number of Consultations by Region of Implementation of Programs, 2019



Note: Figure does not include consultations related to regional programs or which were non-program related.

- 2.13 **Integrity Risk Analyses.** As part of OII's preventive activities, the Office conducts risk analyses of either a program, a sector or a cross-cutting issue to identify and assess integrity risks that might affect the IDB-financed program's ability to achieve its expected results. These are analyses of the performance of an IDB-financed operation with respect to compliance with the Bank's policies, guidelines and contractual obligations, conducted at a particular point in the life of the project with a view to identify strengths and weaknesses that increase integrity risk and its associated reputational impact to the program and/or the Bank. OII reinitiated the use of this tool in 2018. In 2019, OII conducted three Integrity Risk Reviews (IRR) covering five IDB-financed projects. Two projects were in the water and sanitation sector, and three were in the transportation sector.

CASE STUDY 2

Findings and Recommendations of an IRR for Two Transport Programs Implemented by the Same Executing Agency

OII concluded that one of the most significant sources of integrity risk in the execution of the Programs stemmed from weaknesses in the planning and needs-assessment phases of the bidding processes. OII found indicators that the Executing Agency (EA) was rushing the procurement processes in what could have been seen as an attempt to complete them and begin construction prior to the next local election. With a compressed timeframe, the EA relied on flawed engineering designs that required modifications during the execution phase. This resulted in substantial delays and increased cost, and OII determined that it also created a heightened risk that contractors could engage in prohibited practices. For example, because the EA did not have sufficient time to understand the needs of the project, personnel were at risk of approving unnecessary amendments submitted only to increase contractors' profits.

To mitigate this risk, OII recommended the following measures to the EA:

- That the EA build its "in-house" capacity by investing in human and material resources that would bolster its planning, evaluation and supervision processes. This would help the EA staff to achieve more technical independence and mitigate risks from external interference and supervision failures.
- That the EA consider using Build-and-Design Contracts and Output-and-Performance-Based Road Contracts, which would transfer more risk and responsibility to the contractors, thereby addressing some of the risks arising from deficient project designs.

The EA accepted OII's recommendations and confirmed its intention to implement them.

2.14 Use of Country Systems. OII's preventive function also used lessons extracted from investigations and risk analyses to provide recommendations that strengthen, from an integrity perspective, borrowing members' procurement systems to manage integrity risks when used in IDB-financed operations. The preventive function also seeks to ensure that bidding documents and other relevant documents regarding the use of Country Systems protect the Bank's authority to investigate counterparties and sanction them in the event there is an occurrence of prohibited practices, as is required by the IDB procurement policies. In this regard, in 2019 OII reviewed the proposals for the use of country procurement systems in Uruguay, as well as the Bank's update to the Strategy to Strengthen National Procurement Systems and provided recommendations to: i) ensure the application of integrity requirements; and ii) promote coordination with OII to improve integrity risk management in IDB-financed operations using national systems.

- 2.15 **Reports of Investigations.** OII extracts lessons learned from investigations and shares this knowledge with Management and operational staff through Reports of Investigation (ROIs). These reports communicate any deficiencies or weaknesses in an IDB Group-financed operation that were identified during the investigation and suggest concrete areas of action that project teams can take to address them. In 2019, OII prepared eight ROIs.

CASE STUDY 3

Agents as an Integrity Risk Factor

Issue: Third-party agents have emerged as one of the most significant cross-cutting risk factors identified in OII investigations. OII has found that companies frequently use third-party agents as a conduit for making payments to public officials in exchange for favorable treatment in the award or execution of contracts. Even though the Bank's Standard Bidding Documents require all bidders to disclose the use of third-party agents, in the cases OII investigated, bidders failed to disclose any information relating to their third-party relationships.

Lessons learned: Although companies have legitimate reasons to engage intermediaries to assist them in preparing bids, these third parties present a heightened integrity risk. Because agents often interact with government officials in non-public settings, and because companies exercise little oversight on those activities, the risk that an agent could make an improper payment to a government official is significant. In addition, given their close relationship with public officials, agents can obtain confidential information not available to other companies and can influence the procurement processes to benefit their clients.

Advice: To reiterate the importance of enforcing third-party disclosure requirements, OII has recommended that project teams work with executing agencies to:

- Educate bidders about what is meant by a “third-party agent” and explain why they are required to include information regarding any fees paid to agents in the preparation of their bid proposal;
- Verify that the forms for disclosing such information are included in both the bidding documents and offers; and
- Engage with OII when they detect evidence that a bidder paid very high fees to a third party for assistance with bid preparation or when companies list former public officials as agents or consultants.

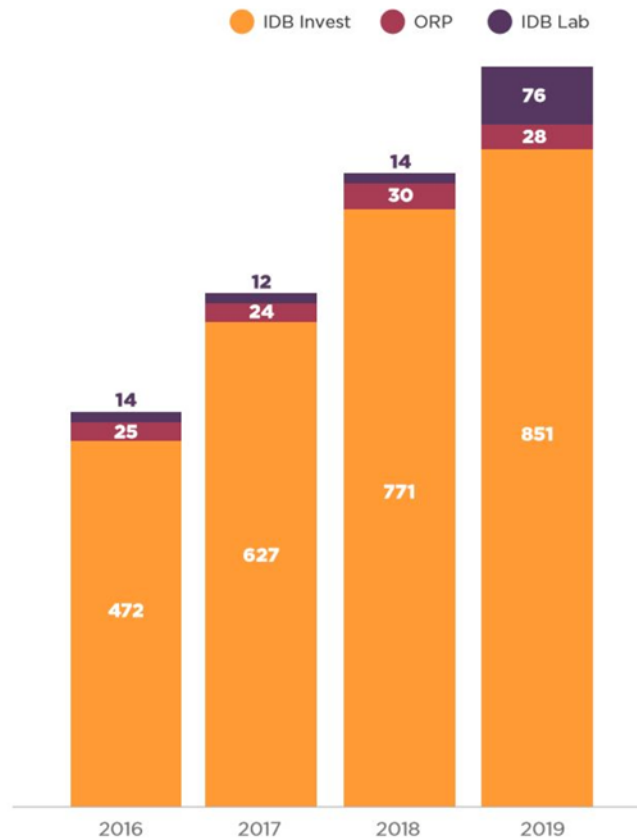
B. Advice to IDB Invest, IDB Lab and the Office of Outreach and Partnerships

- 2.16 In 2019, OII continued to oversee the integrity due diligence (IDD) conducted by IDB Invest on all IDB Invest operations pursuant to the Inter-American Investment Corporation's³ Integrity Framework. This IDD has three components: (1) know-your-customer reviews focused on potential counterparties but extending to other relevant entities; (2) assessments of the anti-money laundering systems of financial institution counterparties, and (3) assessments of the risks (including tax-related risks) presented by counterparties with cross-border corporate structures. The first of these assessments is led by IDB Invest, with the support of OII; the second and third assessments are conducted directly by OII, in collaboration with IDB Invest. Based on these assessments, OII advises IDB Invest whether a project presents: (i) **minimal** risks, *i.e.*, risks that are within risk tolerance and do not merit disclosure or mitigation; (ii) **heightened** risks, *i.e.*, risks that are within risk tolerance but merit disclosure to decision-makers and mitigation where necessary; or (iii) **significant** risks, which are outside of risk tolerance.
- 2.17 In general, 2019 showed a sustained increase in the number of consultations⁴ that OII processed for IDB Invest. In total, OII responded to 851 IDB Invest consultations in 2019 – a 10% increase over 2018 and an 80% increase since the 2016 merge-out (see Figure 9). Of those consultations, 658 related to projects in origination and 193 related to projects in portfolio.

³ In 2017, the IDB Group announced the launch of “IDB Invest” as a rebrand of the Inter-American Investment Corporation (IIC).

⁴ OII frequently provides advice to IDB Invest in multiple instances regarding a single project. Accordingly, OII tracks the work it does at each phase as a separate “consultation,” because each represents a distinct element of work for OII, and projects frequently begin their cycle in one year and finish in another. Accordingly, OII tracks both the number of projects on which it is asked to provide advice as well as the number of consultations to which it responds.

Figure 9. OII Consultations by Year



2.18 2019 is the first year in which OII can report data deriving from a data management system it implemented in 2018. According to those data, OII participated in IDD on 437 separate projects – a number that includes 317 projects in origination and 120 projects in portfolio. OII completed a full integrity risk assessment on 104 of those projects in 2019⁵ and concluded that 37 (36%) presented minimal risk, 47 (45%) presented heightened risk (resulting in integrity disclosures and, frequently, mitigation measures) and 20 (19%) presented significant risk and so did not proceed to approval.⁶ Of the 120 portfolio projects on which OII advised, OII concluded in three cases that the project’s integrity risk had increased beyond IDB Invest’s risk tolerance and recommended that IDB Invest seek

⁵ The remaining 213 projects in origination on which OII engaged but did not reach an integrity conclusion in 2019 were dropped, are still being analyzed or are otherwise pending as of December 31, 2019.

⁶ In 2018, OII considered 27 projects in origination to be outside of risk tolerance. As reported in the 2018 Annual Report, this constituted 10% of all projects in origination in 2018. The 2019 percentage of all projects in origination considered outside of risk tolerance – 20 out of 317 projects – is 6.3%.

to exit the project. OII worked closely with IDB Invest to determine next steps for these types of cases. Typically, this involves closely monitoring the facts to see whether there are contractual breaches sufficient to trigger exit rights, and otherwise recommending actions to better manage the integrity and reputational risks (Case Study 4).

- 2.19 While not reflected in these numbers, IDB Invest consultations also grew in complexity in 2019. This growing complexity was driven by multiple factors including the continued fallout resulting from a series of large national and regional corruption cases involving multiple companies in the region, increased anticorruption enforcement activity, improved press reporting on integrity matters, the increasingly frequent participation of large multinational companies in IDB Invest projects, and the expanding scope and sophistication of the financial products offered by IDB Invest.

CASE STUDY 4

The Rippling Impact of National Investigations

In 2015, IDB Invest approved a multi-million dollar loan to a large company in the region to help it invest in fixed assets. In 2017, IDB Invest learned through its portfolio monitoring process that a businessman had admitted to prosecutors that he had paid tens of millions of dollars of bribes to government officials in the project host country. In the course of that confession, the businessman said he had paid bribes to a “shell company” that had then invested in the Borrower. The IDB Invest portfolio management officer consulted with OII to assess the implications of this statement on the integrity and reputational risks presented by this project and to develop a monitoring plan.

OII and IDB Invest worked together for the following two years to closely monitor the evolving investigations and negative press regarding the Borrower and its principals. During this time, IDB Invest and OII repeatedly sought additional information from the client, outside counsel and other sources regarding the underlying allegations and ongoing investigations by the local authorities. By 2018, it had become clear that the Borrower had significant ties to an intermediary who had been convicted for helping a senior government official channel bribes. Based on those ties, and the ongoing enforcement actions by the local authorities against the Borrower and its principals, OII advised in 2018 that the integrity and reputational risks presented by this project exceeded the risk tolerance of IDB Invest and recommended that IDB Invest seek an exit from the project.

OII and IDB Invest worked closely toward that end in 2018 and 2019. In 2019 IDB Invest accelerated the loan for violations of both financial and integrity obligations.

- 2.20 OII also has worked to develop innovative approaches to the mitigation of integrity risks, in one case working closely with IDB Invest and a member government to develop an innovative approach to managing integrity risks in the context of a widespread corruption case. Such innovation increases the awareness of integrity risk within IDB Invest counterparties and improves their capacity to manage such risks. These efforts help clients, bring added value to the region, and form an important element of the value proposition of IDB Invest financing (see Case Study 5).

CASE STUDY 5

Innovative Structure to Manage Integrity Risks

An extensive national investigation and its subsequent prosecution in a member country implicated shareholders and executives of a significant number of construction companies that were operating nationally on public works projects. The reported facts from the cases suggested a high risk that these companies had participated in systemic bribery and collusion in previous years, and therefore presented integrity and reputational risks that exceeded IDB Invest's risk tolerance.

These integrity risks threatened the financial viability of a key investment priority for the government that IDB Invest was considering financing. The government, IDB Invest and OII discussed the potential for developing a new approach to mitigating integrity risks while improving integrity risk management across a significant portion of the country's construction sector.

The resulting approach incorporated several innovative elements including:

- Requiring subject companies and key subcontractors to terminate relationships with companies and individuals – including shareholders and principals – implicated in the national investigations and prosecutions;
- Requiring construction companies to implement anticorruption compliance programs consistent with international best practices and to meet ongoing compliance program targets over the course of the financing in order to receive disbursements; and
- Empowering an independent integrity supervisor to oversee compliance with those integrity standards by the construction companies, and to monitor evolving integrity risks.

While this project did not ultimately proceed for reasons unrelated to integrity risk, the effort to develop it exemplifies how innovative approaches to integrity risk management could be applied to promote development impact. The approach had the objective of facilitating a vital infrastructure project while maintaining IDB Invest's integrity standards and significantly enhancing the ability of both public and private entities to manage integrity and related reputational risks.

A Testimonial

In 2017, OII identified through IDD that a financial company specialized in factoring and leasing presented AML/CFT risk. This risk was presented because factoring activity was not regulated for AML/CFT purposes in some jurisdictions where the company operates. To mitigate these risks, OII and IDB Invest required that the company hire an expert consultant to assess its AML/CFT controls and make recommendations sufficient for it to meet international best practices. In 2019, the Chief Financial Officer of the company affirmed to IDB Invest the value of these improvements:

“[The company] considers that these improvement opportunities allow them to be at the forefront of AML regulations and trends applied by international markets. In addition, these improvements have had a broader effect on the market, particularly the SMEs with which [the company] operates. Those customers are now able to operate in a more regulated and controlled market. These enhancements in controls allow [the company] to position itself better and remain at the forefront of AML/CFT while also helping improve practices throughout this market.”

- 2.21 OII and IDB Invest worked closely to ensure that integrity and reputational risks are adequately managed in the context of new products.
- 2.22 OII also continued to provide integrity due diligence support to IDB Lab in 2019. While IDB Lab’s integrity review method is generally consistent with the one applied by IDB Invest, OII provides advice and technical support to IDB Lab upon request, rather than on every project. In 2019, IDB Lab requested support in 76 instances, all related to projects in origination. This represented an increase of 442% compared to 2018, when OII responded to 14 IDB Lab consultations.
- 2.23 In 2019, OII similarly continued its support for the Office of Outreach and Partnerships (ORP), which conducts due diligence on private sector entities that are proposed to engage in partnerships or other collaboration with the IDB Group. OII advises ORP regarding the integrity risks presented by specific proposed partnerships upon request. In 2019, OII responded to 28 consultations for ORP projects in 2019, roughly equivalent to the 30 ORP consultations processed by OII in 2018.

C. Anti-Money Laundering/Combating the Financing of Terrorism Framework

- 2.24 OII, with the support of RMG, continues to lead efforts to implement the AML/CFT Framework that was approved in 2018. During 2019, OII established an internal stakeholder working group and conducted Bank-wide orientation training. Substantively, OII focused on conducting AML/CFT risk assessments of all Headquarters business units, and on preparing recommendations for additional controls, as needed. This work is largely complete, and in 2020 OII will focus primarily on (i) the implementation of those control recommendations, which will require the procurement and implementation of additional Information Technology systems, and (ii) an assessment of Country Offices, the Service Center, and IDB Lab.

D. Trainings and Outreach Activities

- 2.25 **Trainings.** OII provides training to: (i) increase awareness of the IDB Group's integrity framework and relevant policies, and the corresponding responsibilities of IDB Group employees, executing agencies, beneficiaries of IDB Group financing and private sector entities; and (ii) provide tools to internal and external audiences to manage integrity risk in IDB Group-financed operations.
- 2.26 In 2019 OII carried out 33 training activities, including 18 in borrowing member countries (see Table 1). Regarding training activities organized directly by OII in connection with SG Operations, the Office provided training to more than 375 attendees. OII and IDB Invest jointly developed a training program expanding the scope and offering of integrity training for IDB Invest personnel, which included training in three Country Offices.

Table 1: Number of Trainings by Category

Type of Activity	Number
Orientation Seminar	3
Integrity in IDB Group-Financed Operations	11
Integrity Risk Management for internal stakeholders	2
Integrity in IDB Group-Financed Operations for external audiences	4
Integrity Risk Management in IDB Group-Financed Operations for executing agencies	8
Integrity Due Diligence (IDD) Orientation	4
Contribution of Representatives to IDD	1

- 2.27 **Outreach and Communications.** To ensure that OII shares lessons learned with relevant internal and external audiences, the Office: (i) issued 12 integrity bulletins for the Bank’s personnel; (ii) published a written story on the “Improving Lives” blog of the IDB about the importance of reacting to integrity-related red flags and the impact of prohibited practices in achieving development objectives; and (iii) participated in a panel at an international anti-corruption conference.
- 2.28 **International Anti-Corruption Day.** Every year the Bank celebrates International Anti-Corruption Day, which is observed in December to commemorate the signing of the passage of the United Nations Convention Against Corruption. The IDB Group’s 2019 commemoration featured a photography contest entitled “Transparency: Improving Lives” in which OII, together with the other collaborating departments, sought to provide a creative space for IDB Group employees and family members across the region to visually capture how they view transparency and integrity (or the absence thereof). The event also featured a conversation between President Moreno and an investigative journalist who had directed the work leading to the Panama Papers disclosures.

“As I’ve thought about [this] event, the common thread that keeps coming to mind is the importance of making the invisible visible, in order to counter corruption and promote integrity. We need to show the negative effects of corruption, and we need to work to uncover corrupt practices that are trying to hide.”-Laura Profeta, Chief of the Office of Institutional Integrity.

Photography contest participants submitted 44 photographs that were judged by a group of experts who had the difficult task of selecting the following three winners:

First place: “Teddy Bear”




Ricardo Joya Arista. The image captures a young boy cradling the head of a dead goat, which the photographer explained the boy uses in place of a stuffed animal. Ricardo chose this photo because it poignantly sends home the message that children from underprivileged communities suffer the most from the consequences of corruption.

Second place: “Consequences of Corruption in the perception of well-being.”



Deyanara Matos Mena. The image shows six people holding signs that describe the feelings that emerge in a society where corrupt practices are prevalent. The signs read “distrust,” “concern,” and “indignation and helplessness.”

	<p>Third place: “There is no more”</p>
	<p>Tony Mendonça Mendes submitted an image of a supermarket with nearly empty shelves. The lack of basic products in a supermarket, Mendes believed, is the result of corruption.</p>

E. Key takeaways and challenges

- 2.29 During the past year, OII saw an increase in demand for its advisory services. This was true both in terms of the volume of consultations in connection with the SG, NSG and Corporate activities of the IDB Group as well as the nature and complexity of issues on which project teams consulted OII. The consultations were often connected to systemic risks that called for innovative and proactive approaches from OII’s preventive functions.
- 2.30 In 2020, OII will continue to be innovative with regard to the advice it provides to project teams and Senior Management. The IDB Group is a trusted partner in the region for helping to carry out development projects, including large infrastructure projects, with all their associated risks and benefits. OII will work to increase and consolidate its portfolio of tools to offer more innovative services and be proactive, while sustaining the increasing demand for its service and maintaining rigorous integrity standards.
- 2.31 One of OII’s key goals in 2020 is to continue to improve the capacity of the IDB Group and its partners to manage integrity risks. In this regard, OII will seek new avenues to share knowledge and reach broader audiences.

III. Investigations Results

A. Investigations Outputs

- 3.1 Building on newly established relationships with national authorities in member countries, OII's investigations team has been focused on utilizing the work of national investigatory and prosecutorial offices in the region to uncover systemic integrity risks in IDB Group-financed activities. As part of this effort, OII made use of media reporting on local fraud, collusion and corruption investigations, and asked country office staff to do the same. Simultaneously, OII increasingly relied on the use of potential negotiated resolutions to uncover systemic integrity risks to IDB Group operations.



- 3.2 In 2019, OII faced a five-year high in active complaints (a 15% increase from 2018, see Figure 10) while maintaining a 90% processing rate. Complaint processing entails either the closing of a complaint or decision to transfer the complaint to a preliminary investigation (see Figure 11). When assessing its response to complaints, the investigations team uses a triage system that evaluates the severity of the alleged misconduct and other operational factors.

Figure 10. Total Allegations Received, Active, and Processed 2015-2019

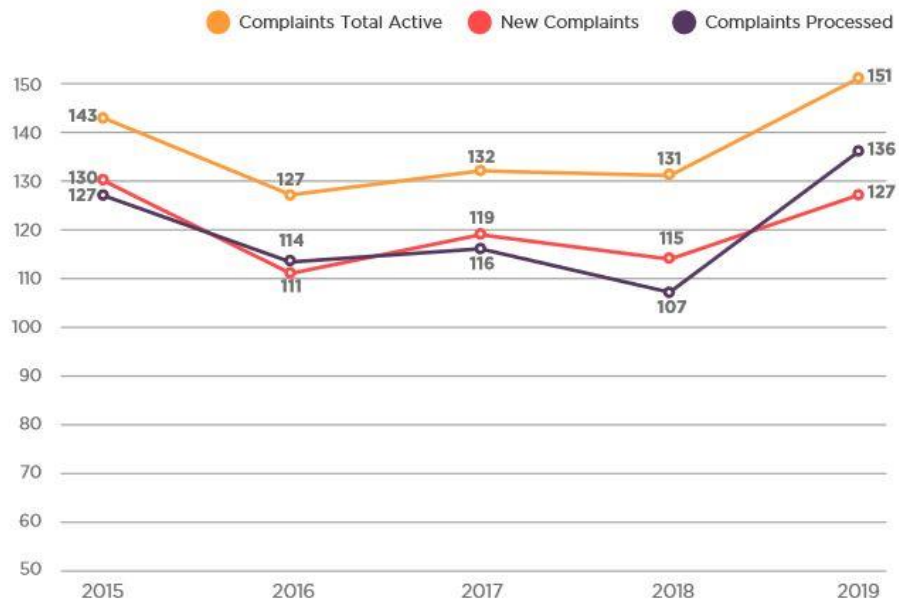
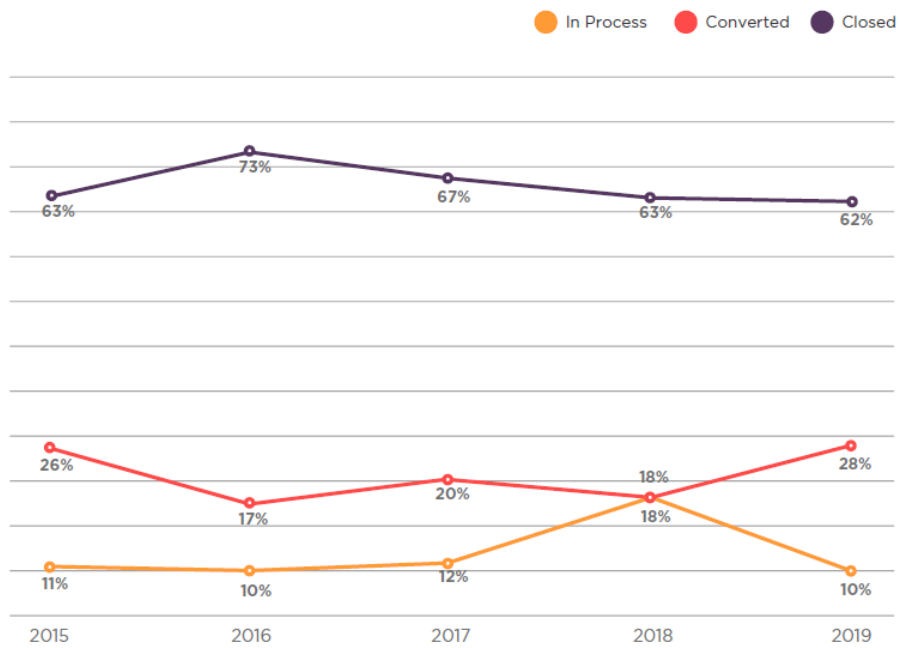


Figure 11. Intake Performance (%), 2015-2019



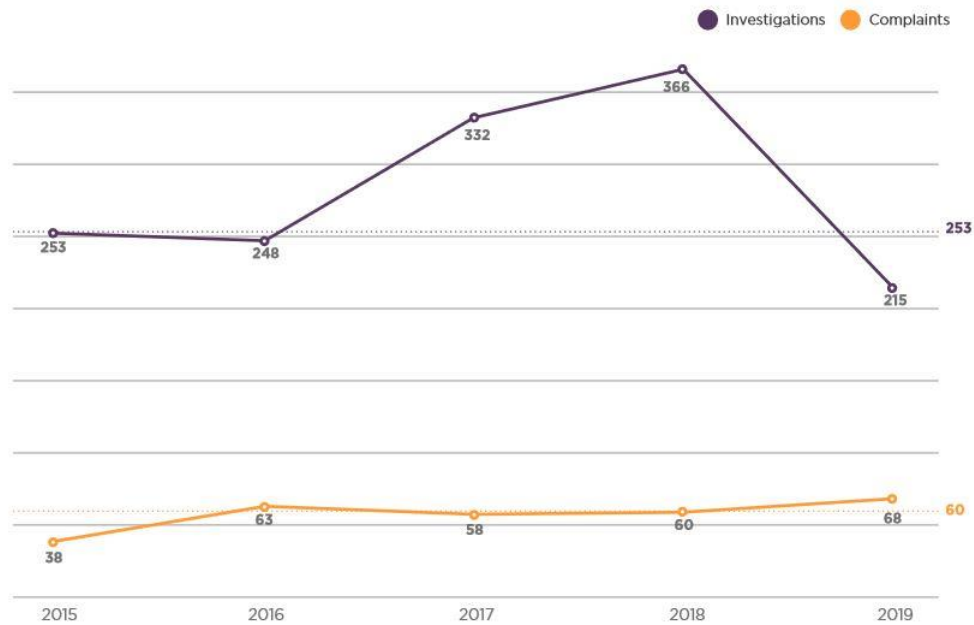
- 3.3 A triage-based system aims to place maximum investigative resources on high-impact investigations; i.e., allegations of corruption, collusion, fraud in execution of a contract, or allegations involving the conduct of executing agencies. In principle, these case types entail a higher threat of systemic risks to a program or likelihood of direct harm to beneficiaries. OII remained committed to the IDB Group's zero-tolerance approach to responding to all credible allegations of prohibited practices either through investigations or prevention engagements with affected operational units and executing agencies.

Figure 12. Complaints by IDB Group's Region, 2019



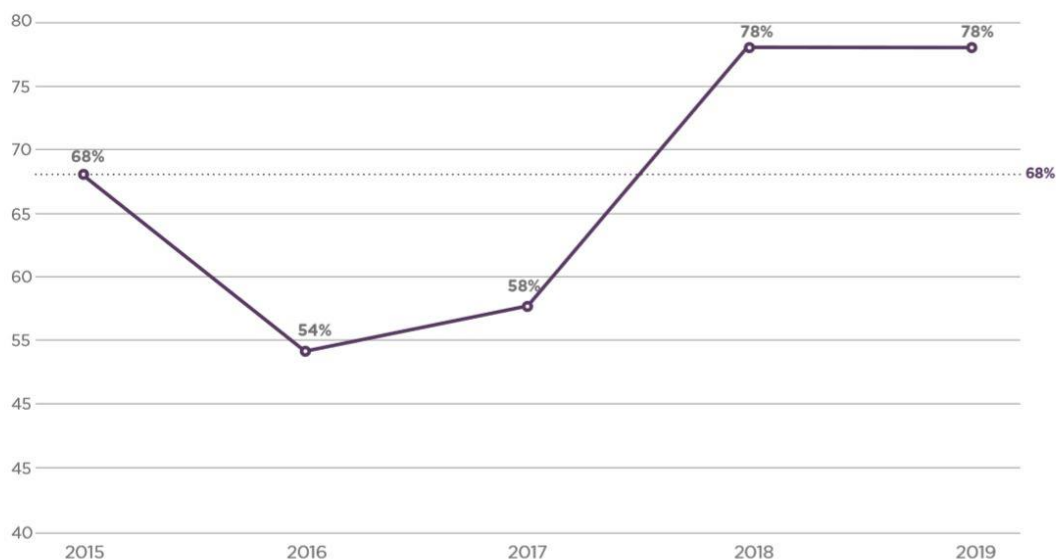
- 3.4 Processing time in Figure 13 refers to either the time taken to close a complaint or convert it to an investigation (lower part of graph), or the time taken to close or complete an investigation (upper part of graph). In 2019, processing times increased minimally for complaints. For investigations, OII achieved the most efficient processing times in five years: an average of five months faster processing compared to 2018, and 15% faster processing time than the five-year median value.

Figure 13. Processing Times for Complaints and Investigations 2015-2019 (days), with median



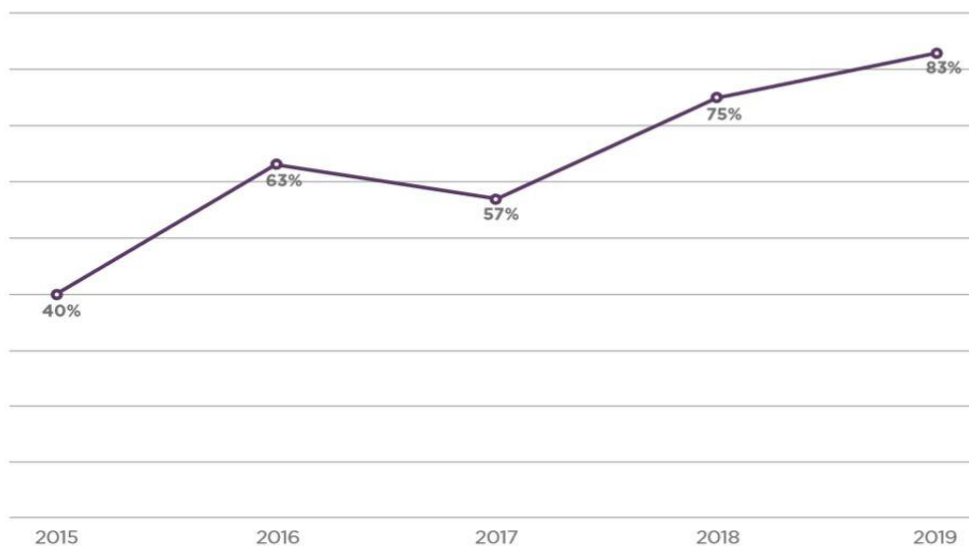
- 3.5 A notable development in 2019 is that OII received a greater number of credible complaints which caused a moderate increase over the median of percentage of complaints converted to investigations. The practical implication of more investigations is higher caseloads per investigator and, potentially, increased processing times in 2020.

Figure 14. Percentage of High-Impact Preliminary and Full Investigations



3.6 In 2019, as in 2018, over three-quarters of OII’s investigations concerned high-impact issues (Figure 14). Notwithstanding the larger number of high-impact and complex investigations, OII increased the percentage of substantiated investigations (cases in which OII found that a prohibited practice occurred) to 83% (Figure 15).⁷ This high percentage reflects the efficiencies of OII’s triage system and the associated ability to properly identify viable cases at the early stages of case processing.

Figure 15. Percentage of Substantiated Investigations



3.7 In addition to case resolutions through the Sanctions System, OII continued utilizing the negotiated resolution process to resolve a very select number of high-impact investigations. In those cases, the subjects of the investigations agreed to cooperate with OII and to provide information related either to systemic integrity risks that may affect IDB Group-financed operations, or to prohibited practices unknown to OII, as required by the Sanctions Procedures. In total, 75% of the Statements of Charges (SOCs) and Requests for Negotiated Resolution authorizations submitted to the SO consisted of high-impact cases.

3.8 Separately, in 2019 OII concluded a negotiation process with a major engineering and construction company in the region, that was carried over from 2018. The resulting

⁷ Includes successfully concluded Negotiated Resolutions which, by definition, always include substantiated occurrences of prohibited practices.

Negotiated Resolution Agreement (NRA) was a landmark resolution for OII resulting in a significant sanction for over 60 companies. As part of the negotiated outcome, the company agreed to share evidence of potential prohibited practices related to the two IDB-financed projects under investigation and agreed to conduct additional internal investigations into other IDB Group-financed activities. Moreover, an added benefit of the negotiated resolution process was the opportunity to require, promote and monitor the implementation of an integrity compliance program intended to ensure that reforms made by the company are effective and long-lasting.

CASE STUDY 6

Executing Agency Personnel Divert Funds for Personal Gain

Allegation: As part of a transportation project, the Executing Agency (EA) designed a model for supervision in which supervision firms hired to monitor the construction of highways would be required to hire and manage junior site supervisors from the ministry of transportation. This EA chose the model in order to build supervision capacity within the local ministry. During a review of the project, OII discovered significant irregularities indicating that EA personnel may have diverted funds away from the project while failing to supply the requisite site supervisors.

Investigative Findings: OII's investigation found that several EA personnel, whose salaries were paid by the IDB-financed program, engaged in an elaborate fraudulent practice to misappropriate funds from the project. Specifically, OII uncovered that the EA failed to provide the supervision firms with the required number of site supervisors. Separately, instead of requiring that the supervision firms deposit funds allocated for the site supervisors to a ministerial account that would be subject to regular audits, EA managers asked that the supervision firms deposit the funds into the personal accounts of other EA personnel involved in the scheme.

Mitigation: Upon discovery of the fraudulent scheme, OII shared preliminary findings with the Project Team, which stopped the use of and payments for ministry of transportation site supervisors. Shortly thereafter, all of the EA personnel involved in the scheme either resigned or lost their contracts.

Sanctions System Actions: OII submitted charges to the Sanctions System against the EA personnel. There were five uncontested proceedings that resulted in debarment ranging from two to 15 years. Two respondents submitted a response to the Notices of Administrative Actions. In both cases, the Sanctions Officer i) determined that it is more likely than not that the respondents committed a fraudulent practice and ii) sanctioned the respondents with a two-year debarment.

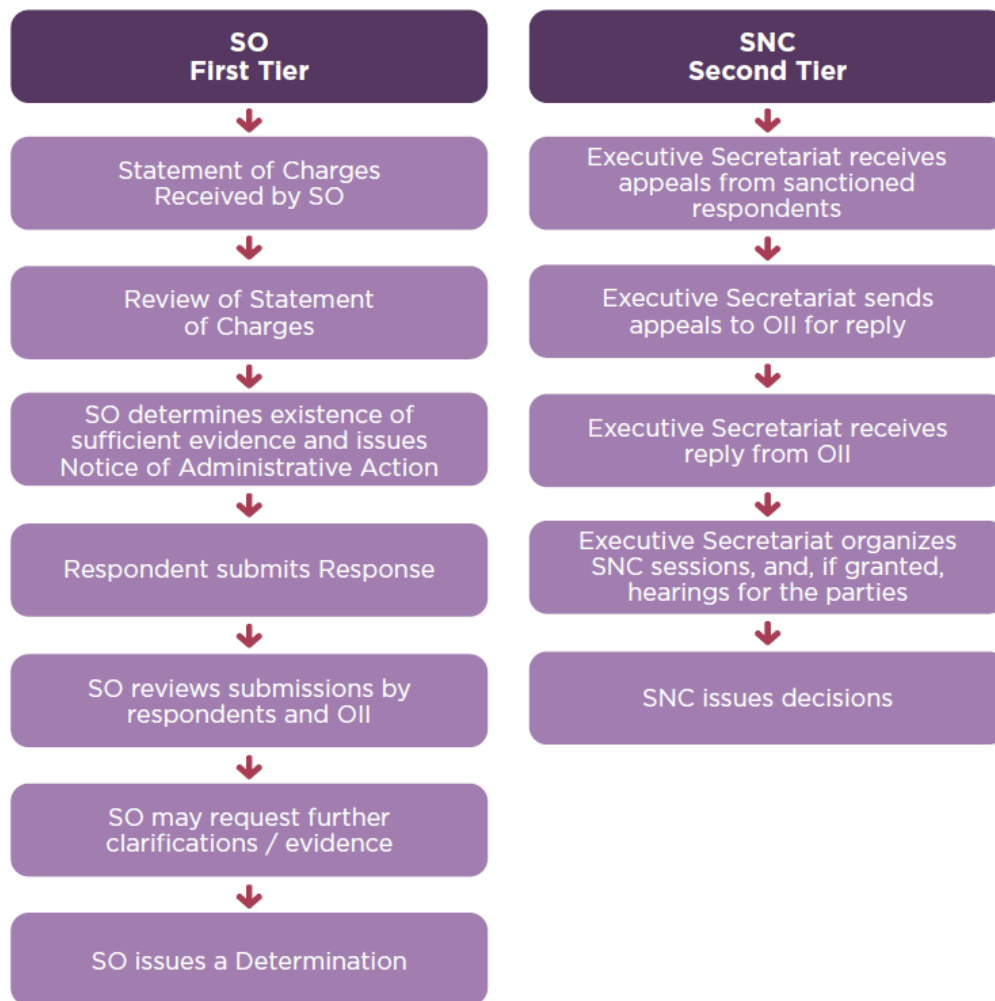
B. Key Takeaways and Challenges

- 3.9 By identifying high-priority cases at an earlier stage, OII was able to focus on a significant number of high-impact and complex investigations. Despite the volume of complex investigations, results show a notable rate of success for OII both in terms of substantiated investigations and favorable decisions from the Sanctions System and NRAs. OII views these metrics as indicators of the Office's efficiencies, effectiveness in combating prohibited practices in IDB Group operations, and relevance for the institution in the area of enforcement.
- 3.10 In the year ahead, the main challenge for OII's investigative function will be to continue to efficiently manage its higher-than-average caseload and increased complexity. OII's aim is to complete complex investigations in a timely manner and submit them to the Sanctions System or to conclude negotiated resolutions in applicable cases that produce valuable lessons learned for IDB Group operations.

IV. Sanctions Officer, Sanctions Committee and its Executive Secretariat

- 4.1 The Sanctions System is comprised of the two-tier adjudicative levels, made up of the Sanctions Officer (SO) and the Sanctions Committee (SNC), which reviews the cases prepared by OII as a result of its investigative work. The cornerstone of the Sanctions System is its independence and impartiality.

Figure 16. The Sanctions Process



- 4.2 The SO is the first-tier decision maker and determines whether there is sufficient evidence to support allegations that the respondent engaged in prohibited practices as presented in OII's Statement of Charges and Evidence (SOC). As part of this process, the SO reviews the

evidence presented by OII, assesses the respondent's response and supporting evidence, and may request additional information from OII or the respondent. The SO issues a Determination and if a respondent is found to have more likely than not engaged in a prohibited practice, imposes a sanction. Sanctions for uncontested proceedings will enter into effect immediately; whereas in contested proceedings – where a respondent presented a response to OII's SOC – the respondent has the right to appeal the sanction imposed by the SO to the SNC.

- 4.3 The SNC is the second and final-tier decision maker of the Sanctions System's adjudication phase. The Committee is assisted by an Executive Secretariat in processing appeals. The SNC adjudicates cases in which respondents have contested a Determination issued by the SO, but the SNC is not bound by the sanction imposed by the SO. The SNC reviews the submissions by OII and the respondents *de novo* and can hold hearings. The SNC assesses whether it is more likely than not that the respondent engaged in a prohibited practice, in which case it imposes a sanction. SNC decisions are final and cannot be appealed. The SNC is comprised of members who are both internal and external to the IDB Group.
- 4.4 The Sanctions System is committed to providing respondents a robust process in the adjudication of their cases. Where possible, the SO and the SNC prioritize the following practices:
- Reviewing the written materials submitted by the respondents in their language of choice, as long as it is one of the four official languages of the Bank, as well as utilizing the language of the respondent in issuing Notices of Administrative Action;
 - Following the Bank's Protocol for the Delivery of Notices when issuing service of notice;
 - Providing respondents an opportunity to present arguments and evidence in response to OII's allegations, prior to the SO or SNC determining whether a sanction is warranted; and
 - When the respondent appeals, providing recourse to the SNC.
- 4.5 In recent years, the SO and SNC have seen increasing complexity in the cases presented by OII and the number of respondents per case, as well as a rise in the number of outside counsels representing respondents throughout the sanctions proceedings.

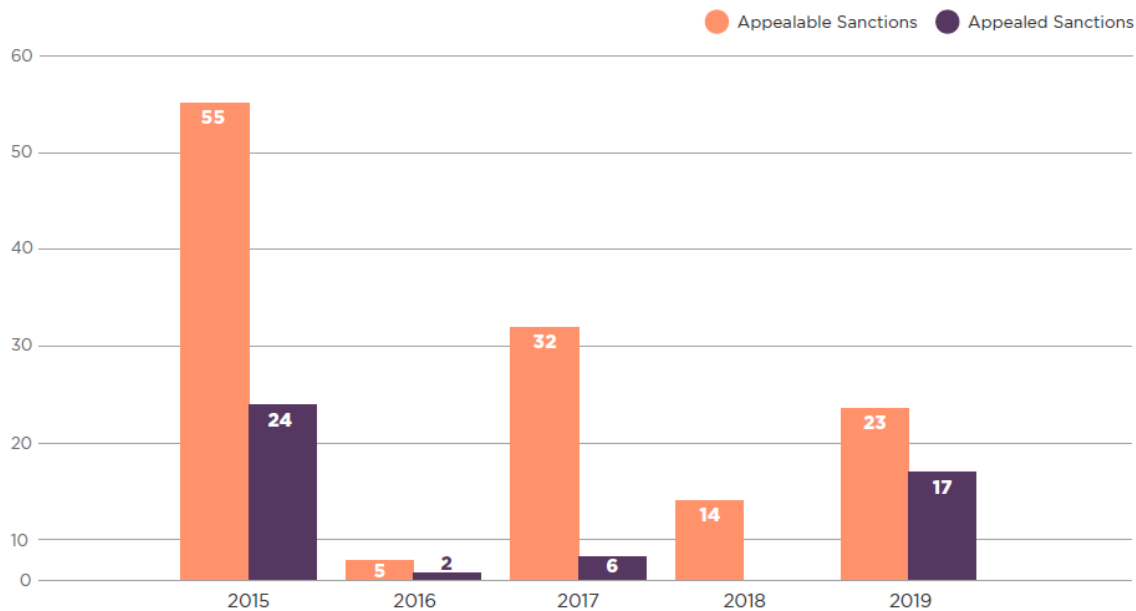
A. Sanctions Officer Outputs

- 4.6 This past year the SO's main activities consisted of reviewing OII's SOC's, assessing OII's petitions for temporary suspensions, and evaluating respondents' requests for reconsideration. In addition, the SO observed an increase in OII's submissions for Determinations on eligibility for NRAs, in which the SO plays a unique role. In these cases, the SO evaluates OII's statements of eligibility for such agreements and determines the permissible range of sanctions available for the negotiation process. This role of the SO in settlement processes is unique among the MDB Sanctions Systems. Finally, this year the SO began publishing case synopses for uncontested cases and cases in which the Determinations were not appealed.
- 4.7 **Statements of Charges.** In 2019, the SO received 12 OII submissions (eight SOC's and four NRA requests) and reviewed five SOC's that were carried over from 2018. Typically, each OII submission involves multiple respondents. Each respondent is entitled to individual sanctions proceedings ("cases") (see Case Study 7). In 2019, there were 39 respondents implicated in OII's 12 submissions.
- 4.8 **Notices of Administrative Action (Notices).** Once the SOC's have been reviewed, the SO must determine whether the charges described warrant the initiation of administrative sanctions proceedings. If the SO determines that a Notice should be issued, each respondent must be notified of their right to participate in the sanctions proceedings and contest the charges.
- 4.9 **Notification Process.** The SO Notice informs respondents that sanctions proceedings have been initiated against them. Respondents then have 60 calendar days to submit a Response. This procedure ensures that respondents receive proper notice, have an opportunity to submit a response, and can establish an efficient and effective line of communication with the Office of the SO.
- 4.10 In 2019, the SO issued 58 Notices to 39 respondents (compared to 61 Notices issued to 50 respondents in 2018). When the Respondent cannot be reached through mail or courier, the SO publishes Constructive Notices on the IDB Group's Sanctions webpage. In 2019, the SO published 21 such Notices (compared to 11 Constructive Notices in 2018). Finally, the SO issued one Notification of Temporary Suspension and processed one Request for Reconsideration of the Temporary Suspension.

4.11 **Contested Cases and Responses Received.** Under the Sanctions Procedures, Respondents may submit responses contesting OII's SOC's. The SO then reviews the SOC's and responses, determines whether additional information is required, and issues a Determination. In 2019, the SO received 43 responses to SOC's and issued seven Determinations in which four respondents were sanctioned and charges against three were dismissed. The remaining 36 SOC's and the corresponding responses are still under review by the SO.

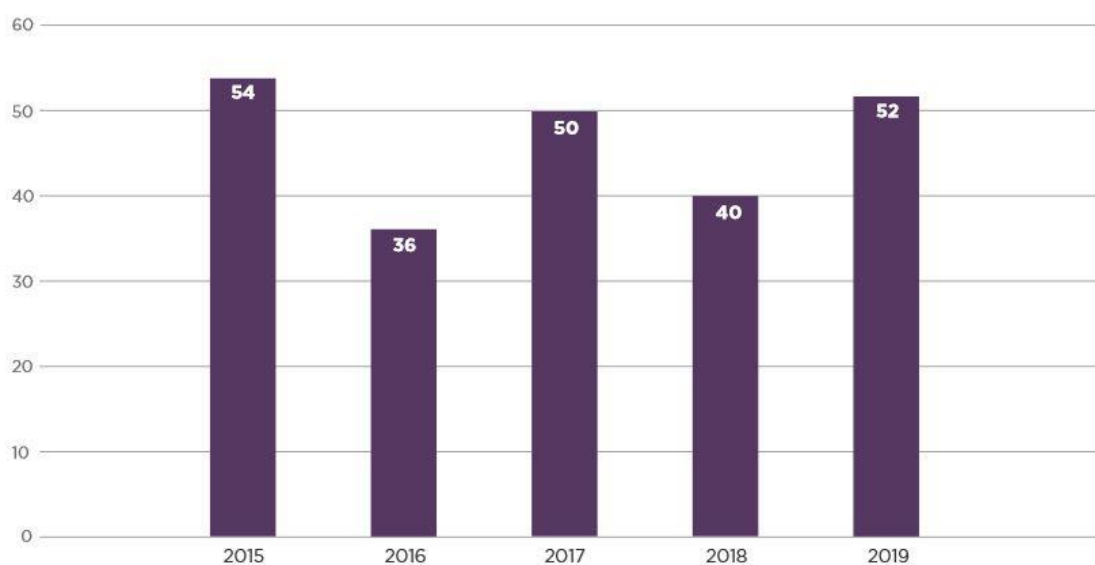
4.12 **Records to File.** In order to decide filed motions, extend procedural deadlines and account for submitted determinations, the SO must issue Records to File. In 2019, the SO issued 76 Records to File related to ongoing cases, whereas in 2018 the SO issued 46 such Records.

Figure 17. Appealed Sanctions 2015-2019



4.13 **Determinations.** During 2019, the SO issued 52 Determinations (compared to 40 in 2018). Forty-three of these Determinations resulted in sanctions: 20 were uncontested and final, whereas 23 were appealable to the Sanctions Committee, out of which 17 were in fact appealed (see Figures 17 and 18).

Figure 18. Determinations



4.14 There were nine Determinations in which the SO did not impose sanctions: the SO dismissed the charges against the respondents in three cases,⁸ terminated the proceedings⁹ in two cases, resolved two requests for Determination of Eligibility for an NRA, granted a Temporary Suspension, and made a Final Determination relating to a Request for Reconsideration.

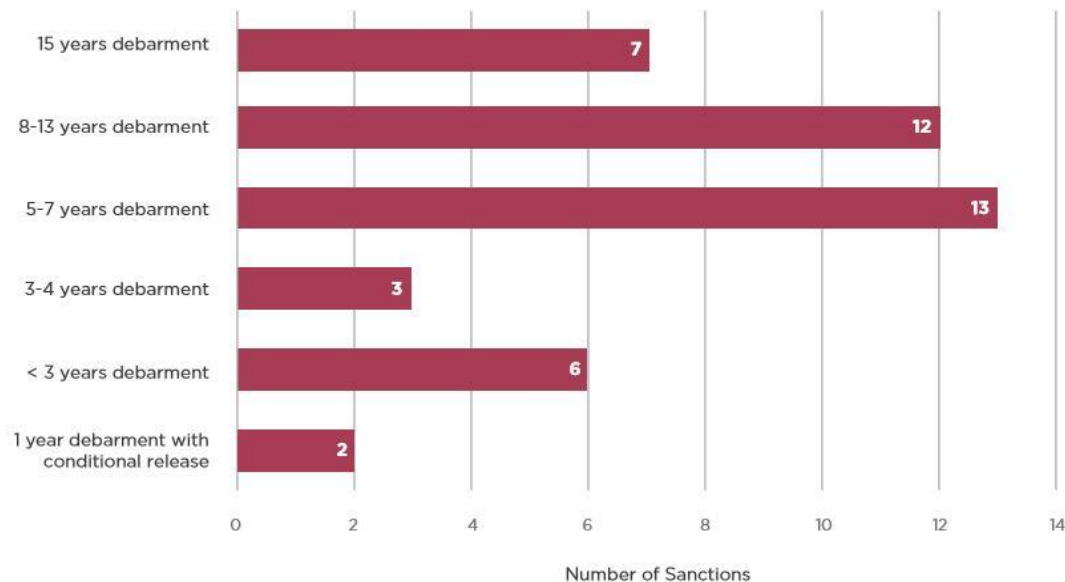
4.15 **Sanctions Imposed.** The table below summarizes the 43 sanctions imposed by the SO in 2019 by prohibited practice. In addition, the NRA referred to in paragraph 4.14 above resulted in a sanction for corruption.

Table 2: Prohibited Practice(s)	Number
Fraud	17
Collusion	5
Collusion, corruption, and fraud	4
Collusion and corruption	11
Corruption and fraud	1
Fraud and obstruction	2
Collusion and obstruction	3

⁸ These three cases relate to the same Statement of Charges.

⁹ Sanctions Officer's Determination by which sanctions proceedings end by dismissing allegations.

Figure 19. Distribution of SO Sanctions for 2019 (Imposed in Determinations Issued in 2019)



4.16 Of the above-mentioned sanctions, there were 41 debarments that ranged from two years to 15 years, as illustrated in Figure 19. In addition, there were two one-year debarments with conditional release that can convert into conditional non-debarment. In total 22 of the sanctions which were imposed and became effective in 2019 met the criteria of the Agreement on Mutual Enforcement of Debarment Decisions (Cross-Debarment Agreement) and were notified for cross-debarment by the MDBs¹⁰. Finally, the SO is currently overseeing the implementation of conditions for two respondents in relation to conditional debarment and debarment with conditional release.

4.17 **Response Time.** In 2019, the average processing time for the SO to review a case and issue Determinations was 322 days, an increase of 15 days in comparison to 2018. As was the case in 2018, a significant number of cases required enhanced scrutiny due to the more complex nature of the allegations and the number of respondents named per case. Furthermore, in 2019 the SO imposed conditions (i.e., requiring that respondents establish or remediate compliance programs) and reviewed Requests of Eligibility for NRAs, both of which required an additional investment of time.

¹⁰ The remaining 19 debarments were not eligible for cross-debarment either because they were less than one year and one day of debarment, or because the sanctions were appealed or appealable.

CASE STUDY 7

Imposition of Conditions and Compliance Programs

OII submitted a Statement of Charges and Evidence ("Statement of Charges") to the Sanctions Officer ("SO") involving findings of fraudulent practices by the members of a consortium. The consortium was awarded a consulting contract in an IDB-financed project and the sanctionable practices were alleged to have occurred during the implementation of the project. As a result of the evidence presented in the Statement of Charges, the SO issued ten Notices of Administrative Action ("Notices") which initiated proceedings against the respondents. Although OII presented one single Statement of Charges, the standard practice of the SO is to separate each respondent into an individual case (each respondent is provided with an individual case number and Notice). Accordingly, all the respondents had their relevant charges considered individually and separately and each respondent received a detailed Determination recording the SO's findings.

The SO terminated the proceedings against one of the respondents because the respondent could not be subject to sanctions. In five cases, the Notices were uncontested, such that the sanction imposed in the SO's Determination entered into force immediately. The SO found the remaining four respondents to have engaged in fraudulent practices and issued Determinations imposing sanctions, which were appealable in accordance with the Sanctions Procedures. Two of the respondents appealed the SO's sanction of debarment to the Sanctions Committee.

In the two cases that were not appealed, the respondents received a sanction of debarment with conditional release, with a minimum period of ineligibility of one year, during which time they would not be able to participate in or be awarded contracts for projects or activities financed by the IDB Group. If the conditions imposed by the SO are met at the end of the one-year period, these respondents will be subject to a conditional non-debarment for three years. Failure to meet the conditions of conditional non-debarment will result in a debarment of an additional three years.

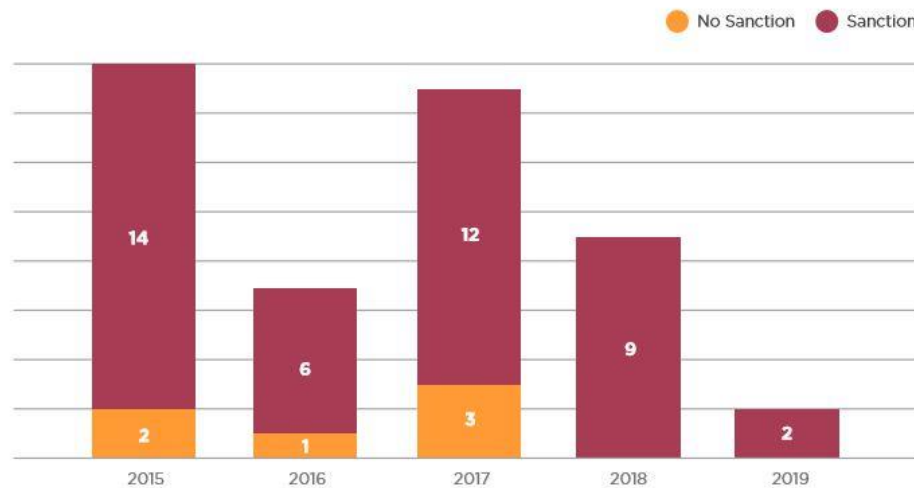
In imposing the combination of a debarment with conditional release and conditional non-debarment, the SO took into consideration the respondents' submissions and supporting evidence regarding the development of an effective compliance program that the SO determined could be implemented effectively, subject to external monitorship. The SO is currently overseeing the progress and execution of the compliance program.

The two respondents who appealed the SO's determination had their cases reviewed *de novo* by the Sanctions Committee. The Sanctions Committee found the respondents had engaged in fraudulent practices and imposed debarments for a period of four years.

B. Outputs of the Sanctions Committee and its Executive Secretariat

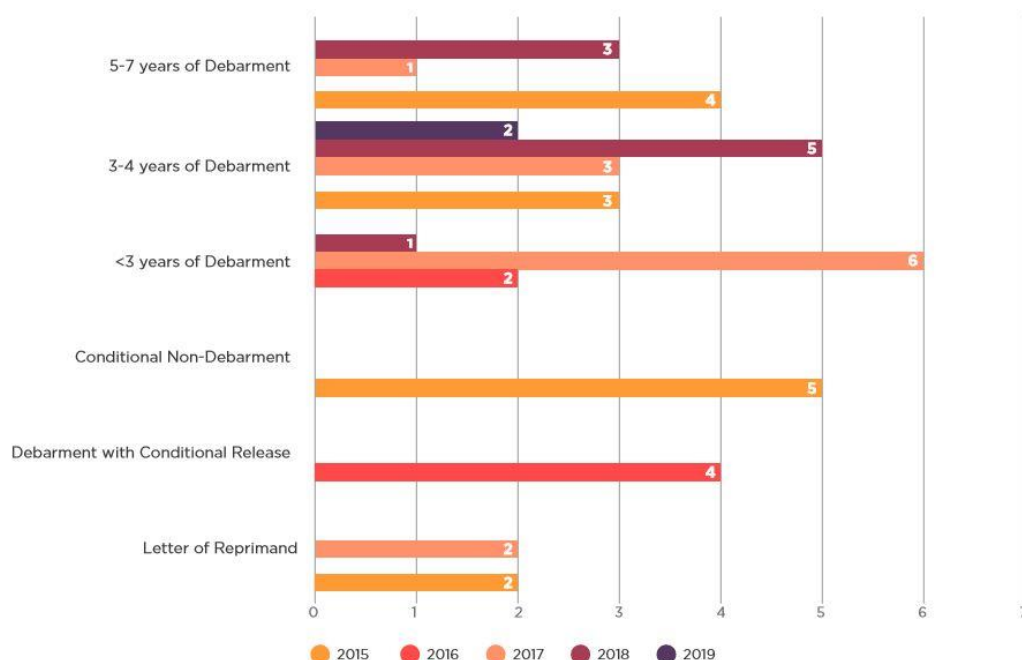
- 4.18 **SNC Executive Secretariat's Outputs.** In 2019 the Executive Secretary processed two appeals from Respondents on cases related to fraudulent practices.
- 4.19 The Executive Secretariat drafted 87 communications (i.e., related to debarments, cross-debarments, and decisions associated with conditions) and referred them to OII, Respondents, Country Representatives, and Executive Directors.

Figure 20. SNC Decisions 2015-2019



- 4.20 **Sanctions.** In 2019 the SNC issued two Decisions, imposing sanctions in both of them as indicated in Figure 20. The nature of the sanctions and years of debarment imposed are summarized in Figure 21 below.

Figure 21. Distribution of SNC Sanctions 2015-2019



- 4.21 **Cross-Debarment Agreement.** The two debarments issued by the SNC met the requirements for cross-debarment and were communicated to the other MDBs by OII.
- 4.22 **List of Sanctioned Firms and Individuals.** As the administrator of the List of Sanctioned Firms and Individuals, the Executive Secretariat published 50 debarments (48 issued¹¹ by the SO and two issued by the SNC) imposed by the IDB Group Sanctions System that became effective in 2019 and the 220 debarments that were imposed by other MDBs (179 from the WBG, 16 from the ADB, 24 from the AfDB and one from the EBRD) and recognized by the IDB Group under the Cross-Debarment Agreement (See Appendix II for a detailed list of the entities and individuals sanctioned in 2019).
- 4.23 **Membership of the Committee.** Following an external member's resignation, the IDB carried out a recruitment process in 2019 to fill this vacancy and a new external member was contracted starting January 1, 2020. Also, in 2019 a new internal member was appointed to replace an outgoing member.

¹¹ The difference between the 48 issued by the SO and the 43 mentioned in paragraph 4.15 refers to the five entities sanctioned by the SO at the end of 2018 that were still appealable at the beginning of 2019, but for which an appeal had not yet been presented.

C. Key Takeaways and Challenges

- 4.24 Since the inception of the 2015 Sanctions Procedures reforms, the SO and SNC have seen an evolution in the complexity of the cases investigated by OII. In 2019, the SO reviewed and issued Determinations in several cases with complex prohibited practices allegations and numerous Respondents which submitted responses in three of the official languages of the Bank. In addition, the SO considered the application and scope of the sanctions imposed on parties related to or affiliated with the Respondents.
- 4.25 As previously mentioned, the SO is overseeing the implementation of conditions imposed in two cases that include monitorships and compliance programs. As the Sanctions System continues to evolve, the SO and SNC will play an important role in overseeing the successful implementation of conditions imposed on Respondents for release from sanction. This approach emphasizes a culture of compliance and reform, representing an important evolution for the Sanctions System.
- 4.26 The coming year will bring changes and challenges. First, the composition of the SNC will change significantly as the terms of five out of seven SNC members will expire in 2020, including the terms of the Chairperson and the Vice-Chairperson of the Committee. In the meantime, respondents have appealed to the Sanctions Committee most of the Determinations the SO issued in the second half of 2019. Therefore, as soon as it takes shape, the newly composed SNC will have a large docket of complex cases to consider.

Appendix I: Prohibited Practices

A **“Corrupt Practice”** is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party;

A **“Fraudulent Practice”** is 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;

A **“Coercive Practice”** is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of a party to influence improperly the actions of a party;

A **“Collusive Practice”** is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of a party;

An **“Obstructive Practice”** is: (i) destroying, falsifying, altering or concealing of evidence material to an IDB Group investigation, or making false statements to investigators with the intent to impede an IDB Group investigation; (ii) threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to an IDB Group investigation or from pursuing the investigation; or (iii) acts intended to impede the exercise of the IDB Group’s contractual rights of audit or inspection or access to information; and

“Misappropriation” is the use of IDB Group financing or resources for an improper or unauthorized purpose, committed either intentionally or through reckless disregard.

Appendix II: Entities and Individuals Sanctioned in 2019*

Name	Entity type	Nationality	Country project	Ineligibility from	Ineligibility to	Grounds
Erick José Goussen Molina**	Individual	Nicaragua	Nicaragua	Jan-29-2019	Jan-28-2020	Fraudulent Practices
Ligia Ernestina Molina Díaz**	Individual	Nicaragua	Nicaragua	Jan-29-2019	Jan-28-2020	Fraudulent Practices
Equipos de Protección de Nicaragua S.A. **	Firm	Nicaragua	Nicaragua	Jan-29-2019	Jan-28-2020	Fraudulent Practices
Carminia Grisel Coela Mendoza	Individual	Bolivia	Bolivia	Jan-29-2019	Jan-28-2024	Fraudulent Practices
Oscar Antonio Pabón Limachi	Individual	Bolivia	Bolivia	Jan-29-2019	Jan-28-2024	Fraudulent Practices
Waira & Power	Firm	Bolivia	Bolivia	Jan-29-2019	Jan-28-2024	Fraudulent Practices
Manuel Candal Candal	Individual	Spain	Peru	Jul-02-2019	Jul-01-2023	Fraudulent Practices
Toponort S.A.	Firm	Spain	Peru	Jul-02-2019	Jul-01-2023	Fraudulent Practices
Julio César Kawazo Kian	Individual	Peru	Peru	Jul-08-2019	Jul-07-2021	Fraudulent Practices
Luís Ángel Visurraga Mariño	Individual	Peru	Peru	Jul-08-2019	Jul-07-2021	Fraudulent Practices
Vikadiza Ingenieros S.A.C.	Firm	Peru	Peru	Jul-08-2019	Jul-07-2021	Fraudulent Practices
ICEACSA Consultores S.L.U. ***	Firm	Spain	Peru	Aug-01-2019	Jul-31-2020	Fraudulent Practices
María Elvira Gómez Pose***	Individual	Spain	Peru	Aug-01-2019	Jul-31-2020	Fraudulent Practices
Autopista del Coral S.A.	Firm	Cayman Islands	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices

Name	Entity type	Nationality	Country project	Ineligibility from	Ineligibility to	Grounds
Belgrávia Serviços e Participações S.A.	Firm	Brazil	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Centaurus Investments Limited	Firm	Cayman Islands	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
CNO S.A. (except branches in Africa)	Firm	Brazil	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Concesionaria Madden-Colón S.A.	Firm	Panama	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Concesionária Trasvase Olmos S.A.	Firm	Peru	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Constructora Norberto Odebrecht de Colombia S.A.S.	Firm	Colombia	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Constructora Odebrecht Chile S.A.	Firm	Chile	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Construtora Norberto Odebrecht de Panamá, S.A.	Firm	Panama	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
HG Market Group Corp	Firm	Barbados	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Multitrade S.A.	Firm	Brazil	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Odebrecht Global Sourcing, INC	Firm	United States of America	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices

Name	Entity type	Nationality	Country project	Ineligibility from	Ineligibility to	Grounds
Odebrecht Industrial Engineering America, INC	Firm	United States of America	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Odebrecht Industrial, INC	Firm	United States of America	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Odebrecht International Participations S.à R.l.	Firm	Luxembourg	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Odebrecht Latinvest Concesionarias S.A.C.	Firm	Peru	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Odebrecht Peru Ingeniería y Construcción S.A.C.	Firm	Peru	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
OSEL - Odebrecht Serviços no Exterior LTD	Firm	Cayman Islands	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Tenenge Montagem e Manutenção Industrial Ltda.	Firm	Brazil	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Tenenge Overseas Corporation	Firm	Cayman Islands	Brazil and Venezuela	Aug-30-2019	Aug-01-2024	Corrupt Practices
Carlos Abel Beltetón Coronado	Individual	Guatemala	Guatemala	Sep-10-2019	Sep-09-2024	Collusive Practices
Corporación Tecnológica de Centroamérica S.A.	Firm	Guatemala	Guatemala	Sep-10-2019	Sep-09-2024	Collusive Practices
Grupo Feder S.A.	Firm	Guatemala	Guatemala	Sep-10-2019	Sep-09-2024	Collusive Practices
Inversiones Carwa S.A.	Firm	Guatemala	Guatemala	Sep-10-2019	Sep-09-2024	Collusive Practices
Juan Elder Osorio	Individual	Guatemala	Guatemala	Sep-10-2019	Sep-09-2024	Collusive Practices
Enold Dorsainville	Individual	Haiti	Haiti	Nov-12-2019	Nov-11-2024	Fraudulent Practices

Name	Entity type	Nationality	Country project	Ineligibility from	Ineligibility to	Grounds
Victor Forest et Co/Société d'Ingénierie et de Topographie (SIT)	Firm	Haiti	Haiti	Nov-12-2019	Nov-11-2025	Fraudulent Practices
Canes Charles	Individual	Haiti	Haiti	Nov-12-2019	Nov-11-2026	Collusive and Obstructive Practices
Jean Charles and Co./APEC	Firm	Haiti	Haiti	Nov-12-2019	Nov-11-2026	Collusive and Obstructive Practices
Magalie Habitant	Individual	Haiti	Haiti	Nov-12-2019	Nov-11-2026	Collusive and Obstructive Practices
Victor Forest	Individual	Haiti	Haiti	Nov-12-2019	Nov-11-2026	Fraudulent Practices
Ronel Jean Baptiste	Individual	Haiti	Haiti	Nov-12-2019	Nov-11-2028	Fraudulent Practices
Wilner Jean	Individual	Haiti	Haiti	Nov-12-2019	Nov-11-2029	Fraudulent and Obstructive Practices
Garry Jean	Individual	Haiti	Haiti	Nov-12-2019	Nov-11-2034	Fraudulent and Obstructive Practices
Marino Vásquez Rojas	Individual	Guatemala	Guatemala	Nov-20-2019	Nov-19-2029	Collusive and Corrupt Practices
Victor Chávez Ingenieros S.A.C	Firm	Peru	Peru	Dec-18-2019	Dec-17-2023	Fraudulent practices
Victor Manule marcelino Chávez Loaiza	Individual	Peru	Peru	Dec-18-2019	Dec-17-2023	Fraudulent practices

* This table illustrates the sanctions which became effective in 2019
** Respondent's sanction was a public Letter of Reprimand
***Debarment with conditional release

Sanctions imposed by SO	28
Sanctions imposed by SNC	2
Negotiated Resolution Agreements	20

Appendix III: Cooperation Agreements



Cooperation Agreements signed to date between OII and national authorities as well as international organizations:

- Caribbean Development Bank (Bridgetown, Barbados)
- Brazilian Federal Prosecution Service (Brasilia, Brazil)
- Nordic Development Fund (Helsinki, Finland)
- United Nations Development Program (New York, USA)
- Comisión Nacional de Mercados y Competencia (Madrid, Spain)
- Conselho Administrativo de Defesa Econômica (Brasilia, Brazil)
- Comisión Federal de Competencia Económica (Mexico DF, Mexico)
- European Anti-Fraud Office (Brussels, Belgium)
- The Global Fund Office of Inspector General (Geneva, Switzerland)
- Fiscalía General del Estado (Madrid, Spain)
- Fiscalía del Estado de la República del Ecuador (Quito, Ecuador) **NEW 2019**
- French Anti-Corruption Agency (Paris, France) **NEW 2019**
- United Nations Office for Project Services UNOPS (Copenhagen, Denmark) **NEW 2019**

Cooperation established through the Uniform Framework for Preventing and Combating Fraud and Corruption

- African Development Bank (Abidjan, Côte d'Ivoire)
- Asian Development Bank (Mandaluyong, Philippines)
- European Bank for Reconstruction and Development (London, United Kingdom)
- European Investment Bank (Kirchberg, Luxembourg)
- World Bank Group (Washington D.C., USA)

Appendix IV: Glossary*

Anti-Corruption Policy Committee (ACPC): A committee of representatives of Senior Management of the IDB and IDB Invest, chaired by the Executive Vice President of the Bank, charged with developing policy and exercising general oversight of the Sanctions System.

Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Framework: While the Bank is not subject to national regulations, it has formalized its commitment, consistent with international best practices, to safeguard its operations from the risks of money laundering and the financing of terrorism. This Framework requires IDB business units to apply AML/CFT controls on all financial relationships with external counterparties, including donors, vendors, consultants and consulting firms.

Beneficial Owner: A natural person who ultimately owns or controls a legal entity or arrangement, such as a company, a foundation, etc.

Complaints: Allegations received by OII potentially related to prohibited practices, including information obtained proactively by OII through research methods or reported publicly.

Conditional Non-Debarment: A sanction whereby 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 the Respondent to comply with such measures in the prescribed time period may result in automatic debarment under the terms provided in the Sanctions Officer's Determination or the Sanctions Committee's Decision, as appropriate.

Constructive Notice: The inference that the Respondent has knowledge of a Notice of Administrative Action or other type of communication by virtue of publication and/or other efforts to notify the Respondent as deemed appropriate by and in the discretion of the Sanctions Officer or Executive Secretary, as applicable.

Cross-Debarment: An agreement among the African Development Bank Group, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank Group and the World Bank Group to mutually enforce each other's debarment actions, with respect to the four harmonized sanctionable practices, i.e., corruption, fraud, coercion, and collusion.

Debarment with Conditional Release: A sanction whereby a Respondent is subject to a debarment shall be terminated upon compliance with conditions set forth in the Sanctions Officer's Determination or the Sanctions Committee's Decision, as appropriate.

Decision: A ruling issued by the Sanctions Committee assessing whether a preponderance of the evidence supports a finding that the Respondent engaged in a prohibited practice.

Determination: A ruling issued by the Sanctions Officer assessing whether a preponderance of the evidence supports a finding that the Respondent engaged in a prohibited practice.

* The definitions contained in this Glossary are not necessarily official, but rather are provided to aid the understanding of certain terms by readers of this report.

Financial Action Task Force (FATF): Inter-governmental body established in 1989 by the Ministers of its member jurisdictions. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

Full Investigation: The final investigative stage for allegations of prohibited practices that are identified to have corroborating evidence which may lead to the substantiation of an allegation.

High-impact Investigation: Investigation that pertains to allegations of corruption, collusion, fraud in the execution of a contract, or allegations made against executing agencies that entail concerns for systemic risks to a program or the likelihood of direct harm to beneficiaries.

Integrity Due Diligence (IDD): In order to manage integrity risk and the associated risk of reputational and other impacts in its operations, IDB Invest conducts integrity due diligence on proposed operations prior to approving or otherwise giving effect to such operations and in a manner commensurate to the risks presented by the type of operation. Integrity Due Diligence includes the following core elements: (i) general integrity review, (ii) anti-money laundering/combating the financing of terrorism (AML/CFT) review, and (iii) structural integrity review.

Integrity Risk Review (IRR): Review of an IDB-financed program that is conducted by OII in close cooperation with project teams to identify factors that increase integrity risk and its reputational impact on the program. In broad terms, this preventive tool examines: (i) internal controls; (ii) procurement; (iii) financial management, (iv) asset verification and (iv) governance.

Letter of Reprimand: A sanction whereby a Respondent is issued a formal letter of censure from the Sanctions Officer or the Sanctions Committee, as appropriate.

Negotiated Resolution Agreement (NRA): A process in which OII may seek a mutually agreed resolution (settlement) of a case, instead of a contested sanctions proceeding, in which an Investigated Party admits or does not contest the findings of an investigation and provides evidence of systemic prohibited practices or integrity risks to IDB Group-financed activities.

Notice of Administrative Action: The document prepared by the Sanctions Officer that notifies a party that sanctions proceedings have been initiated against them as a Respondent. A Notice of Administrative Action contains a copy of the Statement of Charges submitted by OII, states the initial finding of the Sanctions Officer, appends a copy of the Sanctions Procedures, and explains that the Respondent has an opportunity to respond prior to a determination being made and/or sanction being imposed.

Preliminary Investigation: The initial investigative stage for allegations of prohibited practices that have passed an initial screening for credibility and mandate requirements.

Prohibited Practices: Parties subject to the IDB Group's jurisdiction are prohibited from engaging in the following practices: fraud, corruption, collusion, coercion, obstruction, and misappropriation. Misconduct related to such practices may lead to sanction proceedings (see Appendix I for further details).

Report of Investigation (ROI): Report that communicates to Management and project teams any operational or integrity deficiencies or weaknesses identified during an investigation completed by OII and suggests concrete actions to address them in the investigated project and in situations or projects with similar characteristics.

Request for Eligibility for a Negotiated Resolution Agreement: OII's request for a decision issued by the Sanctions Officer on whether the alleged actions of the investigated party, if substantiated, would constitute a Prohibited Practice and whether the eligibility criteria for a Negotiated Resolution have been met. The Sanctions Officer will provide OII with his or her concurrence that such agreement is permissible and the range of sanctions to which OII shall refer in negotiations.

Request for Temporary Suspension: The submission presented by OII to the Sanctions Officer requesting that a Temporary Suspension be imposed on a Respondent.

Request for Reconsideration: Respondent's submission requesting the Sanctions Officer to reconsider the imposed Temporary Suspension.

Respondent: Individual or Firm alleged to have engaged in a prohibited practice.

Sanction: If a party is found to have engaged in a prohibited practice the possible sanctions are Reprimand, Debarment, Conditional Non-Debarment, Debarment with Conditional Release, and other Sanctions, including, but not limited to, the restitution of funds and the imposition of fines.

Sanctions Committee: The second and final instance of the Sanction System's adjudication phase, consisting of four external and three internal members appointed by the President of the Bank, to carry out the functions of the committee independently as set forth in the Sanctions Procedures and Sanctions Committee Charter.

Sanctions Officer: The first instance of the Sanction System's adjudication phase, consisting of an individual appointed by the President of the Bank, who shall not be a member of the Sanctions Committee, and who serves independently as provided by the Sanctions Procedures.

Statement of Charges and Evidence: The formal pleading prepared by OII that identifies each party alleged to have engaged in a Prohibited Practice, outlines the alleged charges, and appends all evidence relevant to the determination of a sanction, including exculpatory or mitigating evidence in OII's possession.

Temporary Suspension: The Sanctions Officer may temporarily suspend a party from eligibility to participate in or be awarded additional contracts for Projects pending the conclusion of sanctions proceedings.

Triage System: A case-weighting system utilized to ensure that investigatory findings will be available to address the most serious allegations of misconduct in activities financed by the IDB Group.