

OFFICE OF INSTITUTIONAL INTEGRITY AND SANCTIONS SYSTEMS

ANNUAL REPORT 2016

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ACRONYMS

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

I. INTRODUCTION

1.1 This Annual Report describes the work of the Office of Institutional Integrity (OII), the Sanctions Officer (SO) and the Sanctions Committee (SNC), which together are responsible for overseeing the management of integrity risk at the Inter-American Development Bank (IDB) Group¹. The work of these offices is highly dependent on the contribution of many others who help ensure IDB Group operations are free of fraud and corruption and adhere to the highest integrity standards. As such, this report also reflects the efforts of operational staff, executing agencies, whistleblowers, national authorities and many others who, in one way or another, took action against corruption and other prohibited practices.

1.2 This report is structured in two sections, in addition to this introduction. The first includes reflections on the work of OII, the SO and the SNC during 2016 and their challenges and opportunities for the year ahead. The second presents data regarding specific outputs during 2016. In addition, this report has two appendixes. The first, intended to be a point of reference, presents an overview of the roles and responsibilities of OII, the SO and the SNC. The second appendix contains a list of sanctions imposed by the sanctions system during 2016.



¹ The IDB Group comprises the IDB, the Multilateral Investment Fund (MIF), and the Inter-American Investment Corporation (IIC).

II. REFLECTIONS ON 2016 AND CHALLENGES AND OPPORTUNITIES FOR THE YEAR AHEAD

- 2.1 In the anticorruption field, 2016 was exemplary for showing that the fight against corruption is a cooperative, collective, international effort. For example, information sharing and collaboration between national enforcement agencies and international bodies was instrumental in uncovering significant and complicated corrupt schemes that affected multiple countries in the Latin-American region. Also, over 300 journalists, from across the globe, cooperated in an international investigation that exposed the ultimate beneficial owners of thousands of offshore entities, many of whom used them for illegal purposes, such as money laundering and tax evasion.
- 2.2 Various international statements acknowledged this notion and the important contributions that international organizations such as the IDB and the IIC can and should make to combat corruption. For example, the Panama Declaration (issued following the International Anti-Corruption Conference (IACC)) stated that “Governments should partner with International Financial Institutions by using the robust sanction system to ensure that public servants who engage in corruption do not go free”. The Global Declaration issued following the London Anti-Corruption Summit noted, among practical measures to tackle corruption, the need of “encouraging and supporting the international organizations to increase their focus on fighting corruption and to coordinate their work more effectively”. And in *World Bank v. Wallace*, in which the IDB together with other Multilateral Development Banks (MDBs) and international organizations appeared as *amicus curiae*, the Supreme Court of Canada stated “When international financial organizations, such as the World Bank Group, share information gathered from informants across the world with the law enforcement agencies of member states, they help achieve what neither could do on their own”.
- 2.3 These events and statements remind us that, in fulfilling our mandate, we are not only complying with a fiduciary duty to ensure IDB Group resources are used for their intended purposes. We are also contributing to an international effort to combat corruption, which is essential to address inequality, promote development and improve lives of those who are less favored in our region.

2.4 Throughout the year, we sought to maximize the impact of our work. In addressing allegations, we searched for solutions to the specific issue at hand, but also for opportunities to generate an integrity dividend for affected programs, the institutions responsible for their implementation and the Bank. Also, when working with the private sector, we sought opportunities to provide integrity-related additionality to the projects or our counterparts. With these objectives at the forefront, the themes that persisted or emerged during 2016 are listed below.

- i. OII must continue to identify opportunities for cooperation with current and new partners, while taking into account risks that these may present to the IDB and the IIC, including to their privileges and immunities.
- ii. To maintain and reinforce a culture where integrity is understood as an essential component to all of the IDB Group's work, senior management and OII must undertake continuous efforts. Operational staff acting as a first line of defense requires training and tools to identify and respond appropriately to integrity risks, as well as the ability to rely on the expert advice of the second line of defense. This is conducive to sound integrity risk management practices and indirectly contributes to the strengthening of public institutions responsible for public investments.
- iii. Prioritization is important to maximize impact. While we must continue to adhere to a zero-tolerance standard, we must orient our limited investigative resources more heavily towards addressing high impact cases that may help identify and prevent systemic risks.
- iv. The Sanctions System collaboration with other MDBs should continue to further their consistent approach to new and developing themes in the field and to increase their impact beyond cross-debarment.

A. Challenges and Opportunities of the Sanctions System

OII Investigative Activities

- 2.5 In 2015, OII identified the need to increase its focus on high impact cases, through the prioritization of two types of allegations. First, allegations of corruption or conflict of interest that implicate executing agency officials and are indicative of systemic risks. Second, allegations that may have a heightened adverse impact in IDB Group financed projects, such as allegations relating to collusive agreements or fraudulent practices related to the delivery of goods, works, or services. In 2016, OII continued with these priorities to guide its triage and case assignment process.
- 2.6 This prioritization is reflected in that one third of all cases substantiated in 2016 and almost two thirds of full investigations advanced, but not completed during the year, involve the demand side of corruption. It is also shown in that OII assigned resources to investigating allegations of fraud in execution, collusion, and/or corruption implicating both private actors and the demand side of corruption (i.e. executing agency officials) related to 13 different projects covering 10 countries.
- 2.7 Several investigations revealed systemic conflicts of interest, fraud, misuse of funds by public officials, favoritism, and corruption. Examples from these investigations are illustrated in three case summaries presented below. By coordinating the work of OII's investigative and prevention teams, OII provided IDB decision makers with the evidence needed to require changes to executing agency personnel that did not adhere to the highest ethical standards required by the Bank, as well as changes to execution arrangements and supervision mechanisms in the affected programs.
- 2.8 With the growing complexity of its investigations, in 2016, OII also sought assistance from national authorities, where possible. Specifically, OII received assistance from national authorities in three borrowing member countries on five high priority investigations. In one of these investigations, a national authority helped OII substantiate allegations of corruption. OII also expects that the assistance received in a number of other investigations will yield similar results in 2017.
- 2.9 OII is committed to maintaining the IDB Group's highest ethical standards, requiring a zero tolerance approach to fraud and corruption. Therefore, in addition to prioritizing

cases under the categories described above, OII also continued investigating other allegations of prohibited practices involving less egregious but equally wrongful behavior. OII addressed every allegation it received without bias towards the source of the complaint. When OII concluded that allegations were credible, it opened investigations, except in a reduced number of cases, where OII relied on alternative methods to address concerns. Such methods included deferring to executing agencies who addressed the issues through procurement remedies and, in some cases, initiation of local procedures. This approach was used sparingly and almost exclusively when a fraudulent practice was identified by an evaluation committee reviewing offers, and the alleged actor was disqualified. As a practice, decisions to defer investigations to executing agencies are only taken after OII consults with IDB Group project teams, who commit to monitoring the results of the local process.



Deteriorating road shortly after the contract was fully paid

Case Summary 1

Mishandling of project funds by public officials

Allegations

As part of a proactive effort to better understand procurement activities managed by a ministry of transportation, OII reviewed documentation for the selection processes of dozens of contracts awarded under an on-going IDB-financed operation. OII identified that the Project Coordinating Unit (PCU) awarded several contracts for small road rehabilitation projects in a non-competitive manner, without proper justification. OII further identified that contractual clauses in supervision contracts for large road construction projects required supervision firms to utilize and pay the ministry of transportation for additional supervision workforce and services. Considering the risks for fraud stemming from both issues, OII opened an investigation into the matter.

Investigation Findings

OII substantiated that three contractors selected in a non-competitive manner had actual or perceived **conflicts of interest** arising from situations that included (i) company ownership by ministry of transportation personnel or relatives of ministry personnel and/or; (ii) key personnel simultaneously working at the PCU. In the case of one contractor, OII found that the company was a shell company under the de facto control of a PCU official and that the contracted works were likely carried out by a non-disclosed third party.

Regarding the supervision contracts, OII substantiated **fraudulent practices** by PCU and ministry officials when it identified that additional supervision workforce services were not provided to the project, and that payments intended for this purpose were channeled to the private bank accounts of PCU staff. The relevant PCU and ministerial officials failed to demonstrate that the received funds were used for their intended purposes.

Harm to the Program

In the case of the selection for the small road rehabilitation contracts, the findings revealed that the PCU exhibited a pattern of **restricting competition and favoritism**. Regarding the supervision contracts, the fraudulent practices revealed that while the supervision firms implemented their portion of the contracts, the supplemental supervision by the ministry, as originally contemplated for the program, did not take place, and **project funds were indirectly syphoned** by officials entrusted with its safeguarding. The conduct of the PCU and ministerial officials put into question the integrity and transparency of the program.

The Bank took measures to mitigate risks identified, including discussions with the authorities to manage risks regarding several officials and to stop the use of supplemental supervision support. OII intends submit charges against the relevant parties for sanctions.

Case Summary 2

High level corruption leads to inflated costs paid with Bank financing

Allegations

OII learned, through press reports, of allegations that government officials at the highest level had solicited and received bribes in the procurement of specialized software acquired for over US\$1.7 million. Given the seriousness of the allegation, OII conducted a review of the procurement process and found significant irregularities to warrant an investigation. During the review, OII also learned the results of a national criminal investigation implicating the same government officials in corruption unrelated to IDB- financed activities.

Investigation Findings

With partial assistance from national authorities, OII substantiated the allegation that two software providers committed **corrupt practices** when they **paid senior government officials in exchange for their influence in the award of contracts**. Specifically, OII found that the senior government officials pressured members of the Executing Agency (EA) to cancel the first iteration of the procurement process and re-advertise the process with new requirements that would guarantee the award of the contracts to two specific bidders.

OII also substantiated that representatives from the two software providers and the EA engaged in **collusive practices** when they formed an arrangement to **co-write the technical specifications** included in the terms of reference used in the second iteration of the procurement process.

Lastly, OII substantiated that one of the software providers submitted **false previous experience** to meet the requirements for the award of the contract.

Harm to the Program

OII found that by allowing the software firms to modify the terms of reference, the resulting bidding documents and awarded contracts included a **reduced period of mandatory technical support** from what was originally contemplated. The modified requirements also limited competition by excluding providers of similar software. As a result, the process was conducted with no competing offers, which allowed one of the software providers to include **fictitious costs** in its offer and overcharge the as much as **900% over the fair market value** of the software.

As a result of the national criminal investigation, the senior officials were removed from their posts. OII informed the Bank team of the matter and will submit charges against the relevant parties for sanctions.



Above: Concrete wall of a sewage treatment plant discussed in Case Summary 3

Below: Sewage leakage from a newly constructed network line in a residential area (Case Summary 3)



Case Summary 3

Trickle-down effect of corruption

Allegations

Approximately one year after the award of a contract for the construction of a wastewater treatment facility, a complainant informed OII that the contractor did not meet the financial qualifications for the award, as it had not paid taxes during the previous five years. OII opened a preliminary investigation into the matter and quickly identified other irregularities regarding the contractor, including other potential fraud in its offer and in the execution of the works.

Investigation Findings

OII substantiated allegations that the contractor committed **corrupt and fraudulent practices during the procurement process**. Specifically, the contractor, knowing that he did not qualify for the contract award, offered a non-disclosed agent 25% of the proceeds of the contract in exchange for: (i) the preparation of the offer, for which the agent used false documents related to financial and technical requirements, and (ii) obtaining the award through the agent's contacts with officials overseeing the procurement process. Consistent with the agreement with the agent, OII identified that the contracting entity **restricted competition** by conducting the bidding process over a holiday period and failing to comply with requirements to advertise on a public procurement portal accessible nation-wide. As a result, the contractor was the only bidder.

Regarding the **execution of the contract**, OII substantiated allegations that the contractor committed a **fraudulent practice** when he **falsified concrete test samples** to conceal that he was using **substandard concrete**. With the assistance of the Bank project team and an independent testing firm, OII identified that the waste water treatment facility was constructed with a low-grade concrete mixture. The investigation found that the contractor avoided detection of the fraud because the original testing firm relied on samples the contractor supplied, instead of following the industry standard procedure where the testing firm extracts samples directly from the site.

Harm to the Program

A study hired jointly by OII and the project team to evaluate the consequences of using substandard concrete found that: (i) the **works will suffer from cracking** in the short and long term and eventually affect the functionality of the waste water treatment facility; and (ii) the low-grade concrete used in the construction was not appropriate for such type of waste water treatment plant as it will not be able to resist corrosive elements that are permanently in contact with the structure. As a result, the **facility was deemed non-viable for operation**.

The Bank declared expenditures related to the facility ineligible; based on the findings of the technical study. Additionally, to strengthen local capacity to evaluate bids, the project team implemented training programs for municipal governments. It also implemented additional inspections of similar works to ensure conformity with technical specifications. OII will submit charges against the relevant parties for sanctions.

2.10 **The year ahead.** In 2017, OII will continue to conduct its investigations as efficiently as possible, emphasizing the following:

- i. prioritization of investigations that provide insight into wrongdoing committed by those entrusted with the execution of IDB Group-financed activities and those that relate to complex schemes that negatively impact development projects;
- ii. expansion of OII's network of partners that, through cooperation agreements, may assist OII in the conduct of complex investigations; and
- iii. negotiated resolutions when the investigated parties are willing to provide credible and actionable information that help identify systemic integrity risks.

2.11 In terms of challenges, OII foresees the following:

- i. expanding awareness of the IDB Group's integrity mechanisms, which is necessary to reinforce a culture that does not tolerate fraud or corruption; and
- ii. improving response time and seeking operational measures to manage risks, while investigations and sanction proceedings run their normal course.

SO and SNC Adjudicative Activities

2.12 As anticipated when the Sanctions Procedures were amended in 2015, the volume of work carried out by the SO increased in 2016. First, Respondents are often making use of the opportunity to respond to charges and be heard at the SO level. Second, the trend of increasing complexity of investigations has become evident in the rising number of collusion cases, with a growing number of Respondents. Despite these factors and no growth in workforce or other resources, the SO has adapted to meet the needs of the sanction system and maintain the same level of service.

2.13 **The year ahead.** Last year's annual report anticipated that the SO's workload would increase as a result of additional procedural steps within a more complex decision making scenario, where multiple submissions would have to be reviewed. 2017 will be a year where the SO continues to adapt to these additional procedural steps. It is still too early to determine the level of engagement of Respondents at the SNC level and its effect on its workload. Given the current number of Responses at the SO level, the

SNC expects there to be a similar number of appeals. However, there is an expectation that the second-tier review will be more focused as most of the contested issues will likely have been addressed at the first tier.

B. Challenges and Opportunities of the Prevention Function

- 2.14 The sanction system is a robust and necessary mechanism to respond to prohibited practices in IDB Group-financed activities. The sanctions system also serves an important preventive function because it signals the IDB Group's commitment to integrity and deters participants from engaging in prohibited practices. Nevertheless, the IDB Group also needs to proactively identify and assess integrity risks to make informed decisions on whether those risks fall within its appetite, or should be avoided. Without solid integrity risk management measures, the IDB Group will neither be able to close gaps or address weaknesses that create opportunities for prohibited practices to occur, nor will it be able to detect those that do occur.
- 2.15 For these reasons, in the risk management context, OII's responsibilities are to assist the first line of defense in managing integrity risk and to oversee that processes adopted for this purposes are implemented effectively.

OII Prevention Activities related to Sovereign Guaranteed Operations

- 2.16 During 2016, OII continued to focus its prevention efforts in three areas: (i) embedding integrity risk management tools in processes related to the design and execution of sovereign guaranteed (SG) operations; (ii) sharing lessons learned from investigations; and (iii) providing advisory services to respond to integrity concerns.
- 2.17 To embed risk management tools, OII participated in the update of the SG operations risk management methodology. When implemented, this methodology will require SG operational staff to consult with OII when integrity risk indicators such as the existence of past investigations by OII in a predecessor program, or in other programs executed by the same Executing Agency, are present.
- 2.18 In sharing lessons learned to increase awareness of integrity risks and violations, OII continued the practice of producing and sharing reports of investigations (ROIs) with Management and operational staff, and included the Chair of the Anti-Corruption

Policy Committee (ACPC) in the distribution. The ROIs have led to the adoption of concrete actions to address identified risks.

- 2.19 To provide advisory services, OII used these avenues: (i) responding to specific consultations from project teams and senior management that raised issues to OII, and (ii) reaching out to operational staff when allegations or preliminary findings of investigations lead OII to make specific recommendations to improve integrity risk management.
- 2.20 By their nature, investigations and sanctions are lengthy processes not designed to provide immediate resolution to issues that arise during the execution of projects. The time needed to resolve allegations of prohibited practices through this mechanism can be viewed as a barrier to immediate operational concerns. As such, advisory services have also been an important tool to improve collaboration between OII and operational departments.
- 2.21 To effectively support the Bank's operational work, at the case intake stage, OII continued to assess whether allegations warranted an investigation, and also assessed whether the matter at the heart of the allegation could provide an opportunity for OII's prevention staff to provide expert advice, in a consultative manner, to operations. The following case summary illustrates how this approach was effective in reducing integrity risks.

Case Summary 4

Favoritism exhibited during the selection of two procurement processes

Allegations

As reported in the 2015 annual report (Case Study 5), OII responded to an alert by a Bank project team of irregularities in the procurement process for the construction and rehabilitation of main road in a borrowing member country. The allegation included indications that a bidder submitted an offer under a shell company in order to appear as a qualified bidder and that the Project Coordinating Unit (PCU) was willfully ignoring clear red flags of the fraud. In 2016, while the investigation was ongoing, the project team alerted OII that the same bidder, this time operating through a legitimate company, was being considered for the award of another IDB-financed multi-million dollar road construction and rehabilitation contract. The team was concerned because the evaluation report recommending award to the company under investigation exhibited several integrity irregularities indicative of favoritism.

OII's Response

OII conducted a review of the 2016 procurement process and confirmed concerns flagged by the project team demonstrating a likely attempt by the PCU to favor the bidder at the center of OII's ongoing investigation. This was demonstrated in the two processes and included instances in which the evaluation committees under **the PCU either ignored clear indications of fraud or unjustly rejected several offers** with no recorded attempts to seek clarification from bidders.

As a result of its preliminary findings of fraud and favoritism, OII provided Bank management with an Advisory Note cautioning about these issues and submitted to the Sanctions Officer a Request for Temporary Suspension of the bidder.

Results

The SO concurred with OII that the preliminary finding of fraudulent practices by the bidder and the repeated indicators that the PCU was favoring the bidder and applying selective and inconsistent evaluation practices casted significant concerns about financial and reputational harm to the program and the Bank. Consequently, the SO issued a Temporary Suspension against the bidder, preventing it from participating in IDB Group-financed activities until the resolution of the case.

With the Advisory Note in hand, IDB management raised concerns about potential favoritism with the appropriate ministerial officials who communicated their intention to replace PCU officials involved in the evaluations. In the meantime, the project team continues to closely monitor the PCU's management of the program.

Lastly, OII completed the investigation and presented charges to the SO to sanction the bidder and related parties for fraudulent and collusive practices.

2.22 **The Year Ahead.** In 2017, OII's preventive team will:

- i. continue to closely coordinate with the investigative team to give timely and actionable operational responses to allegations, while allowing investigations to follow their course;
- ii. continue to work with the investigative team to extract lessons from investigations and provide feedback and recommendations to operations;
- iii. explore new mechanisms to have a more systematic approach to address those recommendations; and
- iv. participate in the working group that will design deliverables to implement the recently approved update to the methodology for risk management in SG operations. Through its participation in this process, OII will have the opportunity to effectively embed integrity risk management in the design and implementation of SG operations and will create additional space to build the capacity of the first line of defense to proactively identify, assess and mitigate integrity risk.



2.23 The biggest challenge continues to be the need to mainstream integrity risk management in SG operations. To address this challenge, OII will:

- i. continue to advance its training activities to increase awareness of investigative results and integrity risks in IDB Group-financed projects;
- ii. find different channels to effectively communicate lessons learned from investigations, such as the integrity bulletin that was launched towards the end of 2016 and the OII intranet site which is currently under construction; and
- iii. work with staff in operations to ensure that project teams using the new risk management methodology consider integrity risk management as a natural element of the programs' risk management strategy.

OII Prevention Activities related to IIC Operations

- 2.24 **Supporting Institutional Transition at IIC.** In connection with the merge-out of all IDB non-sovereign guaranteed operations into the IIC, a key objective of the IIC was to maintain and reinforce its integrity culture. OII supported this goal in various ways – primarily through its oversight of the integrity process in all IIC operations, but also by (i) supporting the development of a revised Integrity Framework, a new IIC Operations Manual and revised integrity due diligence process; (ii) providing training to IIC investment, portfolio and legal staff regarding their integrity-related responsibilities, and (iii) meeting with Senior Management and the extended management team about integrity issues generally, as well as in connection with specific operations. This support was provided pursuant to the terms of the SLA Agreement signed between OII and the IIC in April 2016.
- 2.25 **IIC Integrity Framework.** On July 27, 2016, the IIC adopted a revised Integrity Framework that strengthened the mechanisms through which the IIC carries out its firm commitment to integrity in its operations and activities. The revisions to the Integrity Framework incorporated, among others, changes to the IDD process. Those changes were the result of a strategic dialogue led by OII during the course of 2015 regarding tax-related and other risks arising from the use of cross-border corporate structures.
- 2.26 Specifically, the revised Integrity Framework now distinguishes among three "core elements" of IDD: (i) general integrity reviews, (ii) anti-money laundering/ combatting the financing of terrorism (AML/CFT) reviews, and (iii) structural integrity reviews. The

general integrity reviews are focused on obtaining information related to IIC's potential clients and their beneficial owners, in order to identify if they present risks arising from, for example, enforcement history, source of funds, or association with politically exposed persons. The reviews include the fundamental steps of integrity due diligence, and remain largely unchanged from the previous practice at IDB and IIC. The AML/CFT and structural integrity reviews, however, incorporate significant developments from the previous practice. Because these two components require technical skills not generally present in the first line of defense, OII takes a more active role in these reviews, which puts pressure on its resources but helps ensure thoroughness and consistency.

- 2.27 The AML/CFT reviews apply to financial institutions and incorporate a heightened due diligence standard when there are indicators of increased risks in connection with an entity or a jurisdiction. Such risk indicators specifically include reports issued by the Financial Action Task Force (FATF) identifying specific jurisdictions as having strategic AML/CFT deficiencies. The Integrity Framework provides that the IIC will not finance a project "if after conducting such due diligence the Corporation determines that risks are not adequately mitigated". Furthermore, the Integrity Framework prohibits the IIC from providing financing to "any financial institution established in or regulated by a jurisdiction for which the FATF is calling on its members to apply counter-measures due to ongoing and substantial money laundering and terrorist financing risks..."

Example of an AML/CFT Review
Central American Bank subject to heightened AML/CFT due diligence

A bank in Central America was the proposed recipient of both a loan and trade finance guarantees through the IIC's Trade Finance Facilitation (TFFP) program. While the FATF has not identified this jurisdiction as having "strategic AML/CFT deficiencies", OII considered recent AML/CFT enforcement actions against local banks suggested increased risks in this jurisdiction, and merited a heightened AML/CFT review. The review included:

- obtaining external reviews of the bank's AML/CFT program;
- gathering information regarding the bank's AML/CFT compliance history;
- interviewing the bank's AML/CFT compliance officer regarding applicable controls; and
- assessing the implementation of the bank's AML/CFT controls.

Based on this review, OII concluded that the counterparty had adopted and implemented adequate AML/CFT controls, and recommended no mitigation measures.

2.28 The structural integrity reviews seek to identify and mitigate risks - particularly tax-related risks - that may arise from the use of cross-border corporate structures by IIC counterparties. Structural integrity reviews have two elements: (1) tax reviews, which look for indicators of tax evasion or certain types of aggressive tax planning; and (2) tax information exchange risk assessments, which are based on the output of the Global Forum on Tax Transparency and the Exchange of Information for Tax Purposes. As stated in the revised Integrity Framework: "The Corporation will not finance a project if its proposed client or an entity that directly or indirectly controls its proposed client is established in a jurisdiction (other than the Project Host Country) that presents this tax information exchange risk, unless the Corporation is satisfied that measures are in place to effectively mitigate such risk in connection with the IIC operation. OII will support the Corporation in its assessment and mitigation of tax information exchange risks."

Example 1 of Structural Integrity Review
Central American Bank held through a Global Forum listed jurisdiction subject to
Tax Information Exchange Risk Assessment

A Bank in the region was the subject of a structural integrity review. This review was triggered because the bank (i) is held through a shell company established in a jurisdiction classified as non-compliant by the Global Forum; (ii) that same jurisdiction imposes low tax on foreign-source income; and (iii) the beneficial owners of the bank are nationals of the project host country but hold their interest through an offshore structure.

Because the bank is held through a jurisdiction that presents tax information exchange risk (as determined by the output of the Global Forum) this project could not proceed unless that risk is effectively mitigated. In this case, OII recommended that the IIC mitigate this risk by incorporating in the loan documents provisions requiring the counterparty to maintain and make available in the project host country relevant tax information regarding the offshore holding company. Accordingly, if the tax authorities audit the counterparty, tax information (*i.e.*, ownership information, accounting information and banking information) that might not have been available due to the use of an opaque jurisdiction will be made available to the local tax authorities.

Based on these measures, which the client agreed to and were incorporated in the loan agreement, OII considered that the tax information exchange risk had been adequately mitigated.

Example 2 of Structural Integrity Review Multinational retail company subject to Tax Review

A multinational company headquartered in the region and engaged in retail sales of consumer goods was the proposed recipient of a corporate loan. OII conducted structural IDD because the counterparty has a complex multi-jurisdiction corporate structure that includes shell companies and legal entities established in no or low tax jurisdictions. None of those entities were formed in jurisdictions that present tax information exchange risk, based on the output of the Global Forum. Accordingly, the structural due diligence incorporated a tax review but not a tax information exchange risk review.

The tax review identified the risk of abusive tax practices resulting from a significant volume of transactions between operating companies and related entities located in low or no tax jurisdictions. Such transactions could be used to artificially (through mispricing) shift income to lower tax jurisdictions, resulting in reduced tax collections in the borrowing member countries.

In its assessment of that risk, OII considered whether the procedures used to setting prices for related party transactions were suitable and based on studies conducted by third parties. OII also assessed the transfer pricing regulations applicable in the project host country, to verify whether they implement OECD transfer pricing standards.

Following this review, OII recommended that IIC mitigate the risk of abusive transfer pricing by adopting contractual provisions requiring the counterparty to:

- conduct related party transactions under market conditions and in compliance with transfer pricing regulations;
- update its internal transfer pricing studies based on the new OECD BEPS standards;
- have and comply with procedures for recording and documenting related party transactions along with the basis for calculating its price;
- notify the IIC of any new material related-party transactions, and of any material modification of the terms of the existing related-party transactions; and
- upon IIC's request, provide documentation to confirm compliance with the foregoing obligations.

Based on these considerations, which IIC incorporated into the loan documentation, OII advised that the tax-related risks were adequately mitigated.

2.29 The **year ahead**. In 2017, OII will continue to support IIC in consolidating the transition that took place in 2016, through:

- i. providing more specific and targeted training to increase awareness and increase capacity to conduct IDD;

- ii. working with IIC Senior and extended management to ensure that the first line of defense is well prepared to make judgment calls when assessing integrity risks; and
- iii. searching for efficiencies in the conduct of IDD through better use of technology.

2.30 OII will also continue to track international developments regarding AML and tax standards to ensure that IIC's Integrity Framework remains current and that its practices continue to be at the forefront among MDBs.

2.31 In terms of challenges, the most significant one anticipated in 2017 is the growing number of IIC operations, which, coupled with the increased complexity of IDD under the revised Integrity Framework will continue to put pressure on OII resources. To address this challenge, OII and IIC have incorporated mechanisms in the SLA Agreement that allow the parties to review throughout the year the amount that IIC must reimburse IDB/OII.

III. 2016 OUTPUTS

- 3.1 In this section OII, SO and SNC present numerical data and a brief description of their work during 2016.

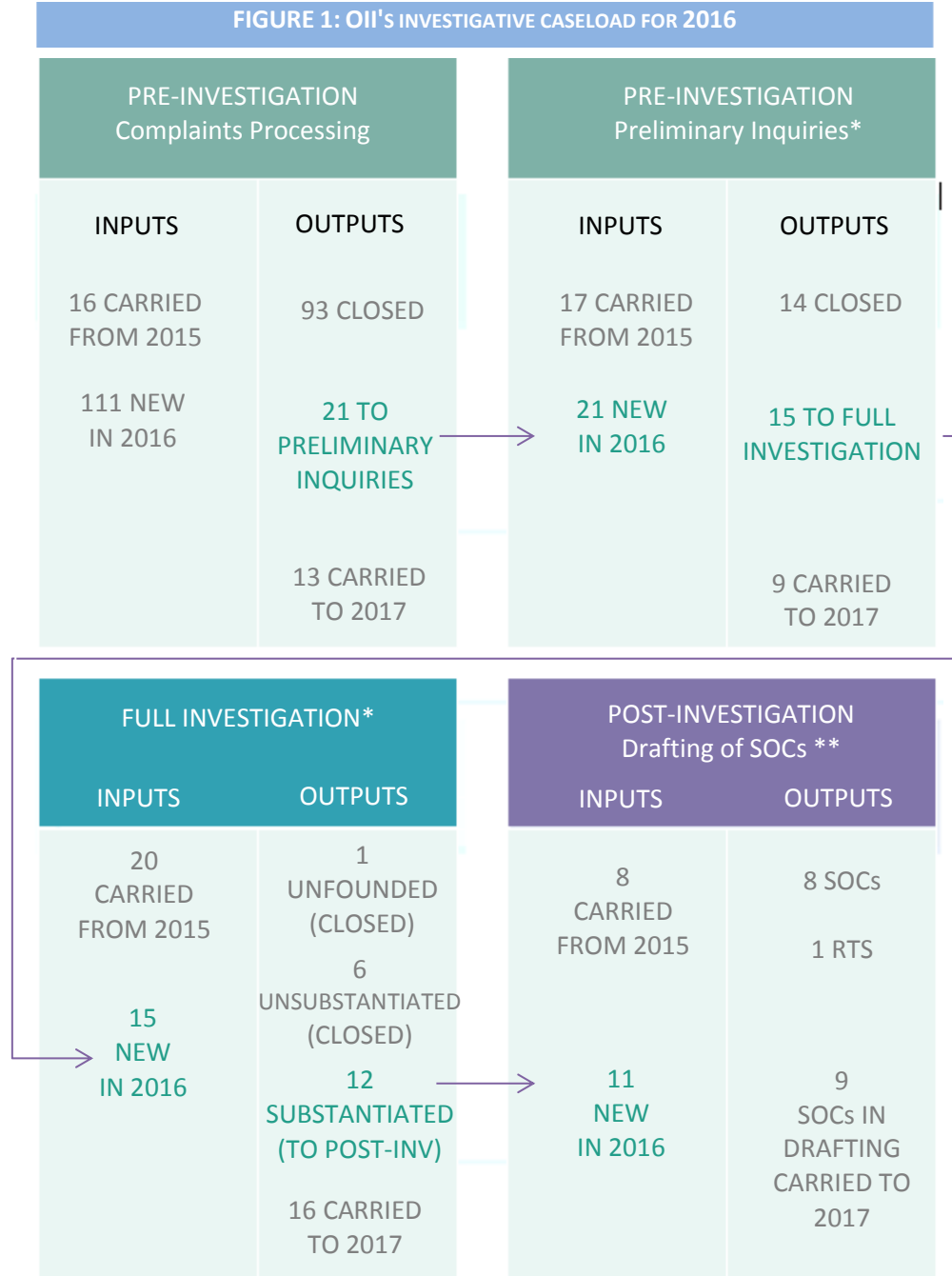
A. Sanctions System Outputs

OII Investigative Outputs

- 3.2 In 2016 OII faced budgetary challenges that resulted in a reduction of its workforce and, consequently, its overall efficiency. Compared to 2015 figures, OII took significantly more time to process investigations in five of six performance measures described below. In terms of volume of activities, OII processed fewer matters, preliminary investigations and Statement of Charges (SOCs), but completed more full investigations.



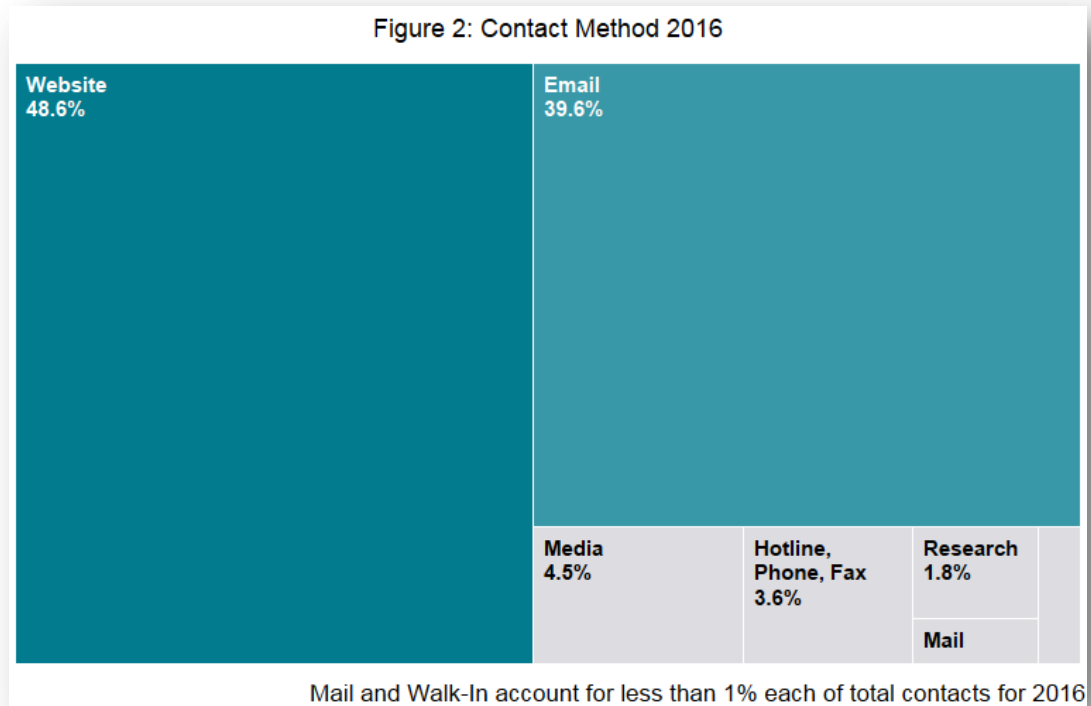
FIGURE 1: OII'S INVESTIGATIVE CASELOAD FOR 2016



*No preliminary or full investigation is related to IIC operations. While OII received some allegations related to IIC operations, none of them reached these stages.

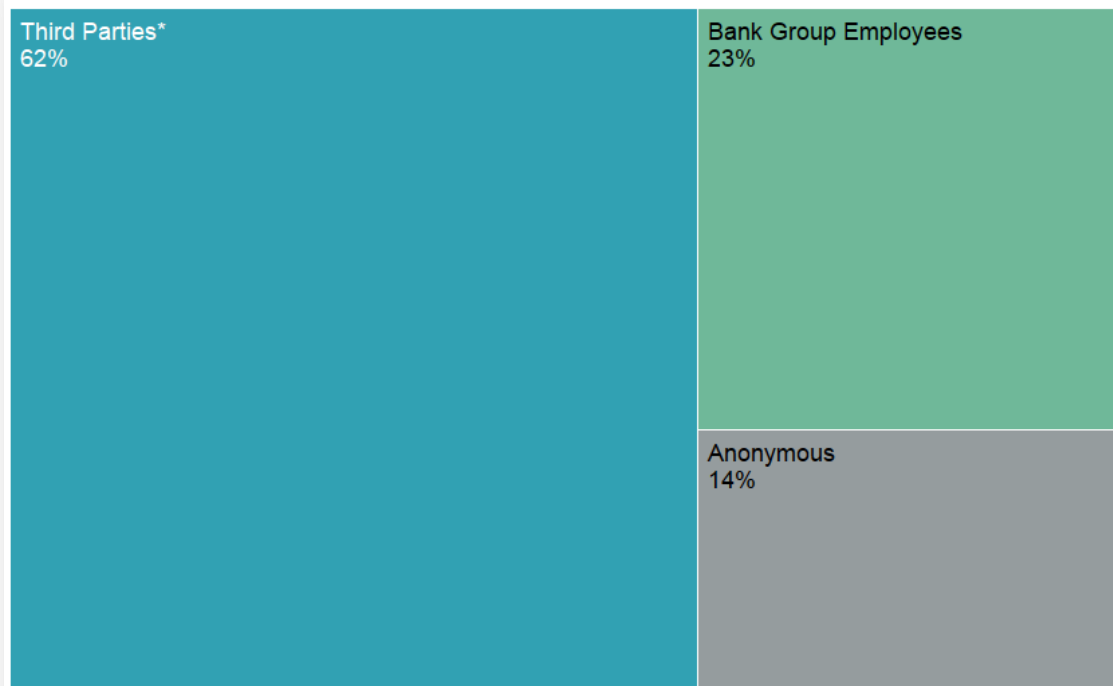
**The input and output columns for post-investigation/drafting SOC may not have the same totals, because a substantiated investigation can result in multiple SOC's, and multiple substantiated investigations may be merged into a single SOC. (SOC: Statement of Charges, RTS: Request for Temporary Suspension)

3.3 **Pre-Investigations – complaints processing.** In 2016, OII received 111 new complaints. Figures 2 and 3 show the sources of complaints and country cluster to which they related. The composition is similar to previous years, when complaints also originated from all IDB regions and were largely submitted by third parties. The percentage of anonymous complaints is also similar to previous years.



Region				
CAN	CCB	CDH	CID	CSC
40	8	8	27	28

Figure 3: Source of New Allegations in 2016

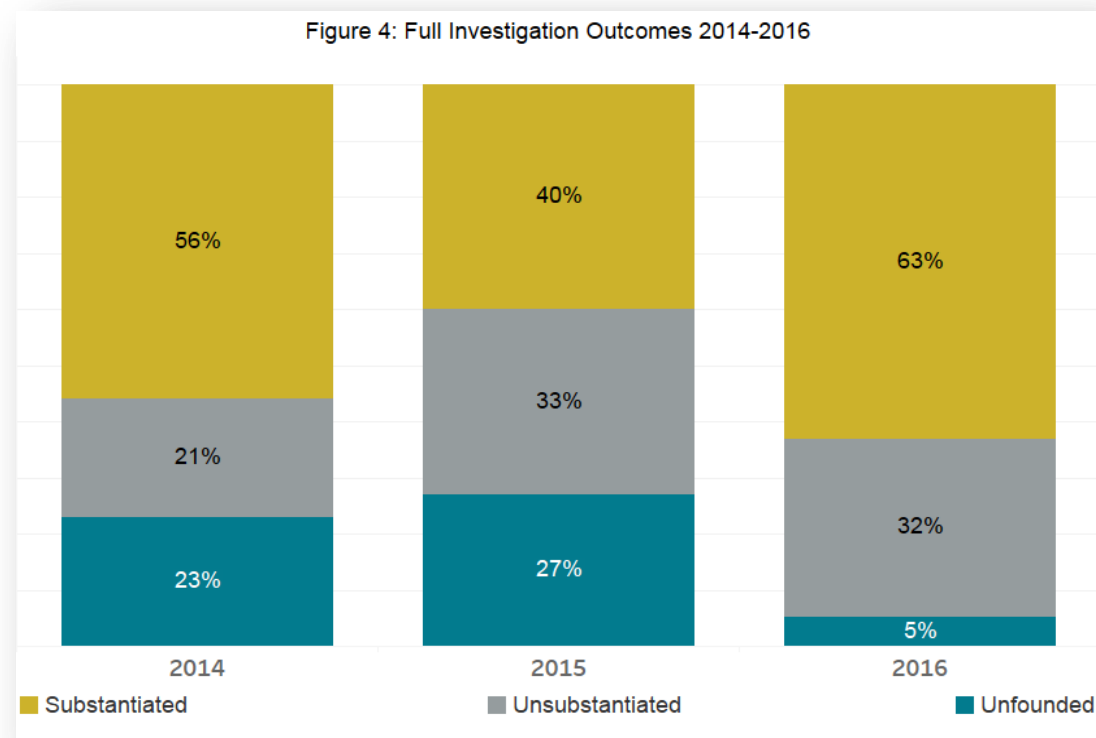


*Within Third Parties source, 32% reported through Bank employees and 68% reported directly to OII. Results are rounded to closest full percentage

- 3.4 Out of the 127 complaints (111 + 16 carried over from 2015) OII addressed, 93 were closed. Of these, 61 were closed because the complaint did not involve a prohibited practice, 16 because the information was insufficient or not credible, and 16 because the complaint did not relate to a Bank-financed activity.
- 3.5 Data from 2016 suggests OII improved its efficacy. The pre-investigation phase is fulfilling its purpose to inform OII's decision on filtering complaints that fall outside its mandate or otherwise do not merit full investigations. In fact, the percentage of complaints that were closed at the first phase of evaluation (73%) was higher than the average percentages observed since the intake unit was introduced (64% during 2013-2015). This efficacy in filtering enables investigators to focus their efforts on investigating allegations where prohibited practices would have a more damaging impact on the respective projects and/or investigations that are more likely to be substantiated.

3.6 In contrast with the improved efficacy, the data also suggests that OII lost efficiencies in the time spent processing matters and preliminary investigations. Specifically, when compared to 2015, OII took 72% more time to process closed matters and 90% more time to convert matters to preliminary investigations. Similarly, OII required 24% more time to convert preliminary investigations to full investigations. The longer processing times were anticipated in the 2015 Annual Report and are primarily related to workforce reductions (response times are reflected in figure 5 below).

3.7 **Full Investigations.** Similar to earlier stages of the investigative process, data from 2016 shows efficacy gains derived from the success of OII's filtering mechanisms and investigative efforts. As reflected in figure 4, OII substantiated 63% of completed investigations. This higher than average rate is a significant validation of OII's work, which is particularly important at a time when OII is placing greater emphasis on complex investigations.



3.8 Of the substantiated cases, all 12 involved fraudulent practices; three also included fraud in the execution of works, two included corruption, and three included collusive

practices. In four investigations OII uncovered significant findings of wrongdoing by executing agency officials. These findings were particularly valuable to operations as they resulted in lessons learned for the Bank and spurred remedial actions applicable to several programs.

- 3.9 Regarding processing times, the data demonstrates a 55% increase in the time taken to complete unfounded and unsubstantiated investigations and a 6% decrease for substantiated investigations. The overall increase in processing time is attributed to (i) workforce reductions and (ii) the fact that at the start of 2016, 40% of all full investigations carried over from 2015 were considered complex, thus requiring more investigative steps, techniques, and analysis to complete each case.

FIGURE 5: TIME SPENT AT EACH INVESTIGATIVE PHASE		
Pre-Investigation Phase		
Complaints Processing	2015	2016
Closed	36 days	62 days
Converted to preliminary inquiry	41 days	78 days
Preliminary Inquiries		
Closed	193 days	216 days
Converted to full investigation	125 days	155 days
Full Investigations Phase		
Unfounded and unsubstantiated	265 days	412 days
Substantiated	252 days	236 days

- 3.10 **Post-Investigations.** OII's productivity was also affected in the post-investigative phase. As shown in Figure 6, in 2016 OII submitted to the SO eight SOC's and replied to four appeals, which, respectively represent 30% and 47% less than the previous two-year average. However, 94% of all final Determinations resulted in a sanction, which also validates OII's efficacy. In 2016, OII also took on a new area of activity in which, at the request of the SNC, OII dedicated resources to assessing whether Respondents complied with conditions imposed by the SNC in relation to the respective sanctions.

FIGURE 6: POST-INVESTIGATION ACTIVITIES			
	2014	2015	2016
SOCs submitted to SO	11	12	8
OII Replies	8	7	4
Assessment of Conditions	0	0	2
Hearings	6	0	0

SO Outputs

- 3.11 All 2016 cases reviewed and decided by the SO were concluded under the current Sanctions Procedures which entered into force on June 9, 2015. The following are the SO's results for 2016.
- 3.12 **Statements of Charges.** During 2016, the SO received from OII eight SOC's and one Request for Temporary Suspension (RTS). These SOC's were added to nine SOC's that were carried over from 2015, totaling 17 SOC's and one RTS for review within the year. Each SOC can involve multiple Respondents, which will generate individual cases: one per-Respondent. In total, the SOC's and RTS involved 100 Respondents.
- 3.13 **Notification of Administrative Actions.** Upon review of the SOC's, the SO must determine whether the SOC warrants the commencement of administrative sanctions proceedings and therefore the issuance of a Notice of Administrative Action (NAA)—one per Respondent. If the SO determines that an NAA should be issued, the SO has the responsibility to notify each Respondent by using certified mail or courier services. During 2016, the SO issued 39 NAAs and notified a total of 57 Respondents (compared to 79 NAAs issued in 2015 and 64 notified Respondents). If the SO cannot deliver a Notice through these methods, the Respondent is notified through Constructive Notice. During 2016, the SO published 27 Constructive Notices (compared to 20 Constructive Notices in 2015) on the IDB Group's webpage.

NOTIFICATION PROCESS

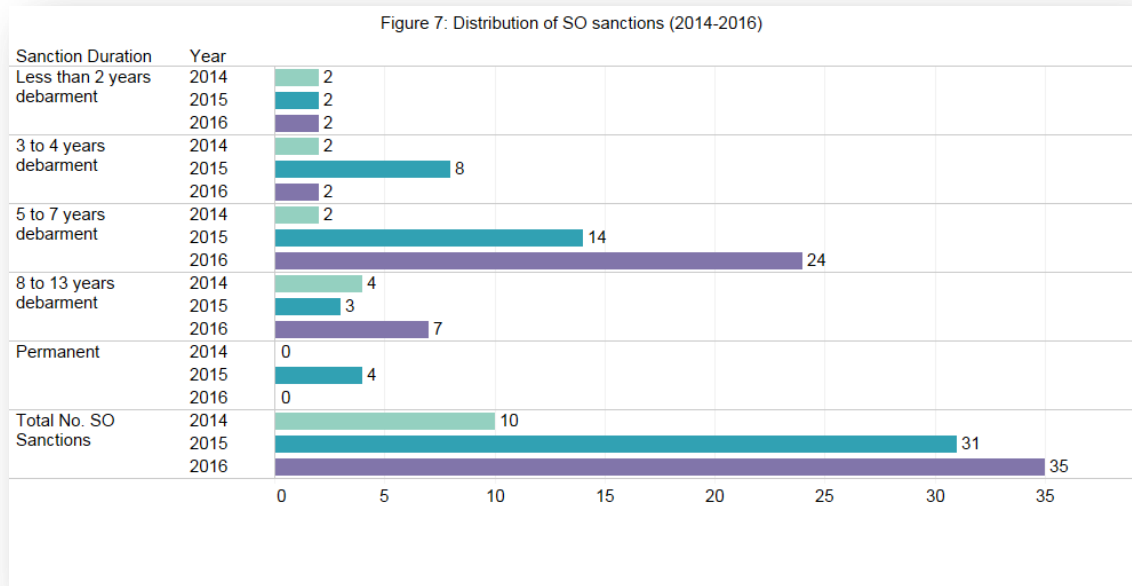
When the SO issues a Notice, he notifies the Respondent regarding the initiation of Sanctions Proceedings. After this notification, the respondent has 60 calendar days to submit a Response to the SO's Notice. If the Respondent fails to submit a Response within this period, the Respondent is considered to have admitted to the allegations set forth in the SOC and to have waived the opportunity to appeal the SO's Determination before the SNC.

According to the Sanctions Procedures, this Notice is to be made using certified mail or other courier services that can provide evidence of delivery. Frequently, however, the mail courier or carrier services are unable to deliver such Notice to Respondents due to varying degrees of postal service development in member countries. In these cases, the SO's Office attempts to contact Respondents through various means, including phone, *e-mail*, or paper correspondence to confirm receipt. In some cases, the SO's Office has collaborated with the Bank's Representation in the country where the Respondent resides, in order to contact Respondents. Each of these notification efforts, referred to as "Notice Transactions", is recorded and documented.

If the SO's Office cannot deliver a Notice to the address obtained by OII during the investigation, and its efforts to contact Respondents are not successful, the SO's Office applies the Protocol for the Delivery of Notices in Relation to the Inter-American Development Bank Group's Sanctions Procedures (Protocol). According to the Protocol, the SO is to issue a sealed letter to the Respondent which states that the IDB Group has initiated an administrative sanction proceeding against the Respondent. The SO's sealed letter further indicates that if the Respondent does not contact the SO, the IDB Group will post a public notice (Constructive Notice) on the IDB Group's website for a period of no less than 30 calendar days. The Notice is considered delivered after the 30-day period has elapsed. If a respondent initiates communication via e-mail after the issuance of the Notice, the SO may opt to continue communications with the Respondent via the same means. These practices seek to ensure that all the Respondents receive the Notices, have an opportunity to submit a Response, and also ensure the efficiency and effectiveness of communications between the Office of the SO and the Respondents.

- 3.14 **Contested Cases and Responses Received.** Under the Sanctions Procedures, Respondents can contest the NAA by submitting Responses. Upon an in-depth review of the SOC and the Responses, the SO must determine if he will require the parties to submit additional information before issuing a Determination. During 2016, the SO received 27 Responses. Seven of these Responses were reviewed and subsequent Determinations were issued. In six cases, the SO issued Determinations against the Respondents. In one case, the SO decided in favor of the Respondent. The remaining 20 cases are still being reviewed by the SO.

- 3.15 **Records to File.** The SO issued 45 Records to File. Records to File allow the SO to properly account for documentation submitted, extend deadlines, and decide filed motions, ensuring due process and equal access to information by all parties.
- 3.16 **Determinations.** During 2016, the SO issued 36 Determinations. 33 of these Determinations imposed sanctions, of which 28 are final. Of the five Determinations that are not yet final, two have been appealed to the Sanctions Committee and are pending Decision, and three may still be appealed, as the appeal deadline has not expired.
- 3.17 With regards to the three Determinations that did not result in sanctions, one Determination was in favor of the Respondent, another terminated the case due to the death of the Respondent, and the third granted a Temporary Suspension against four respondents.
- 3.18 During 2015, the SO issued 54 Determinations. The decrease in the number of determinations issued is due to the change in the Sanctions Procedures, which affects the length of each case at the first-tier level.
- 3.19 **Sanctions Imposed.** During 2016, 35 sanctions imposed by the SO became effective, of which seven had been issued in 2015. All of the sanctions imposed by the SO met the criteria of the Agreement on Mutual Enforcement of Debarment Decisions (Cross-Debarment Agreement) and were notified for cross-debarment by the MDBs. Out of the sanctions imposed in 2016, two sanctions were for collusion, 26 were for both collusion and fraud, and 7 were for fraud. Figure 7 illustrates the nature of the sanctions imposed by the SO during the period 2014-2016.



3.20 Response Time. During 2016, the SO issued his Determinations in 185 days on average, a time which is similar to the average amount of time it took to issue a determination in 2015, 180 days. In addition, a significant number of cases required slightly enhanced scrutiny, due to the more complex nature of collusion cases. The SO issued Determinations in English and Spanish in accordance with each Respondent's native language.

Case Summary 5
Fraudulent Misrepresentations to Gain and Maintain a Grant from the IDB
Reaffirmation of the Importance of the Sanctions Procedures

The IDB Group financed a program which provided support to enhance the private sector within a sub-region. The Respondents (a company, its subsidiary, and the Executive Director) had received a grant to develop a new business plan to improve the capacity to produce, market, and export affordable and unrestricted consumer communications hardware to an extended base of low-income customers through non-traditional retail venues.

OII submitted charges which specified that the Respondents had misrepresented the nature and extent of the company activities in order to receive the grant (e.g. the existence of an active distributor's network) as well as the achievements under the program in order to trigger the disbursement of additional funds, despite the company's poor performance. Such poor performance resulted in the Respondents purchasing and importing completed products and misrepresenting them as having being manufactured locally by the company with an all-female workforce.

After reviewing OII's charges and evidence, the SO issued NAAs and received a Response. Subsequently, the SO issued his Determination and decided that it was more likely than not that Respondents engaged in fraudulent practices. The SO stated that the Respondents' use of sophisticated means to hide the deceit and receive the grant, the delay and eventual cancellation of the project, and the social impact of failing to provide adequate facilities, training and benefits to its female workers, was grave enough to impose one of the most severe debarment sanctions.

This was a seminal case due to the extensive punitive measures imposed by the SO as a result of the extensive deceit manufactured by the Respondents and the SO's strict focus on procedural matters, which ensures the protection of the IDB and due process.

Case Summary 6

Extensive Collusive Scheme Among Many Respondents

The IDB Group financed a program which aimed to equip training centers for vocational workers. OII received allegations and subsequently submitted charges which specified that a collusive agreement existed among more than ten Respondents (companies and their representatives) and public officials. According to the charges submitted by OII, the Respondents agreed among themselves the content of their offers, whereas the public officials agreed to disqualify valid competing offers other than those of the Respondents. This conduct led to the Respondents being awarded all ten available lots within the bidding process. OII also included charges against the Respondents for fraudulent misrepresentations. Equipment and services were said to have been provided by the Respondents even though they had not been provided at the time.

The SO reviewed the charges and evidence submitted by OII and issued NAAs. No response was received from any of the Respondents.

The SO then issued his Determination and concluded that it was more likely than not that the Respondents had engaged in the Prohibited Practices of collusion and fraud. He stated that the collusive scheme was planned meticulously and carefully, and there was extensive damage to the program due to fraud. The actions of the Respondents resulted in the beneficiaries of the program, the vocational workers, not receiving the benefit of the program for several months and up to more than one year.

This case was challenging due to the number of involved Respondents and relevant due to the complex nature of the scheme, and the extensive impact it had on its beneficiaries.

Outputs of the SNC and its Executive Secretariat

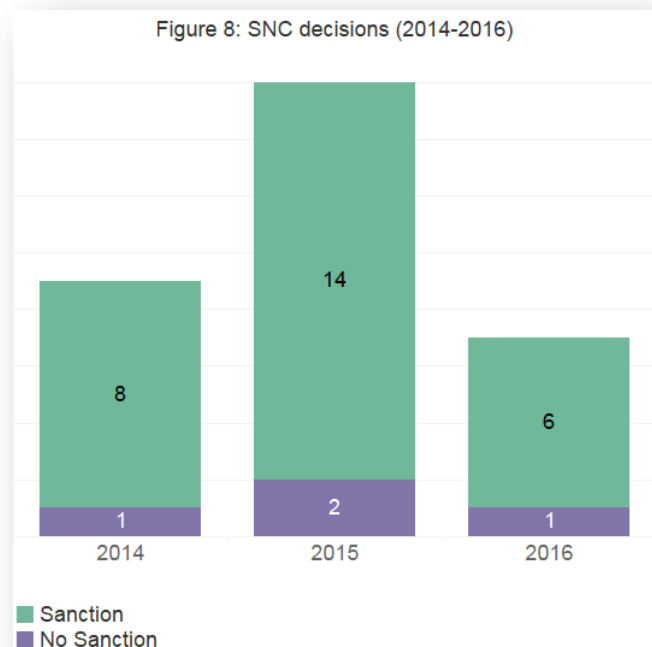
- 3.21 **Transitioning SNC Secretariat and Membership.** In 2016, the President of the IDB appointed a new Secretary, Mr. Edson Mori, and two new internal members, Mr. Felipe Gomez-Acebo and Ms. Marisela Alvarenga de Jacoby.
- 3.22 **Key milestones.** The SNC confronted a more complex caseload in 2016, which resulted in the imposition of a variety of sanctions, such as debarment with conditional release, to require Respondents to be responsible for the restitution of funds and the implementation of an anti-fraud and anticorruption system. The set of conditions were tailored to Respondents and focused on preventing recidivism. Furthermore, the conditions seek to encourage Respondents' rehabilitation and to mitigate further risks in IDB Group-finance activities.

3.23 **SNC Executive Secretariat's Outputs.** During 2016, the Executive Secretary processed 16 appeals from Respondents, which included allegations related to fraud and collusion. Two of these appeals were filed in 2016, while the remaining 14 were presented in 2015. The SNC decided 7 of these Respondents' appeals in 2016; and the decisions for the remaining 9 Respondents' appeals are expected in early 2017.

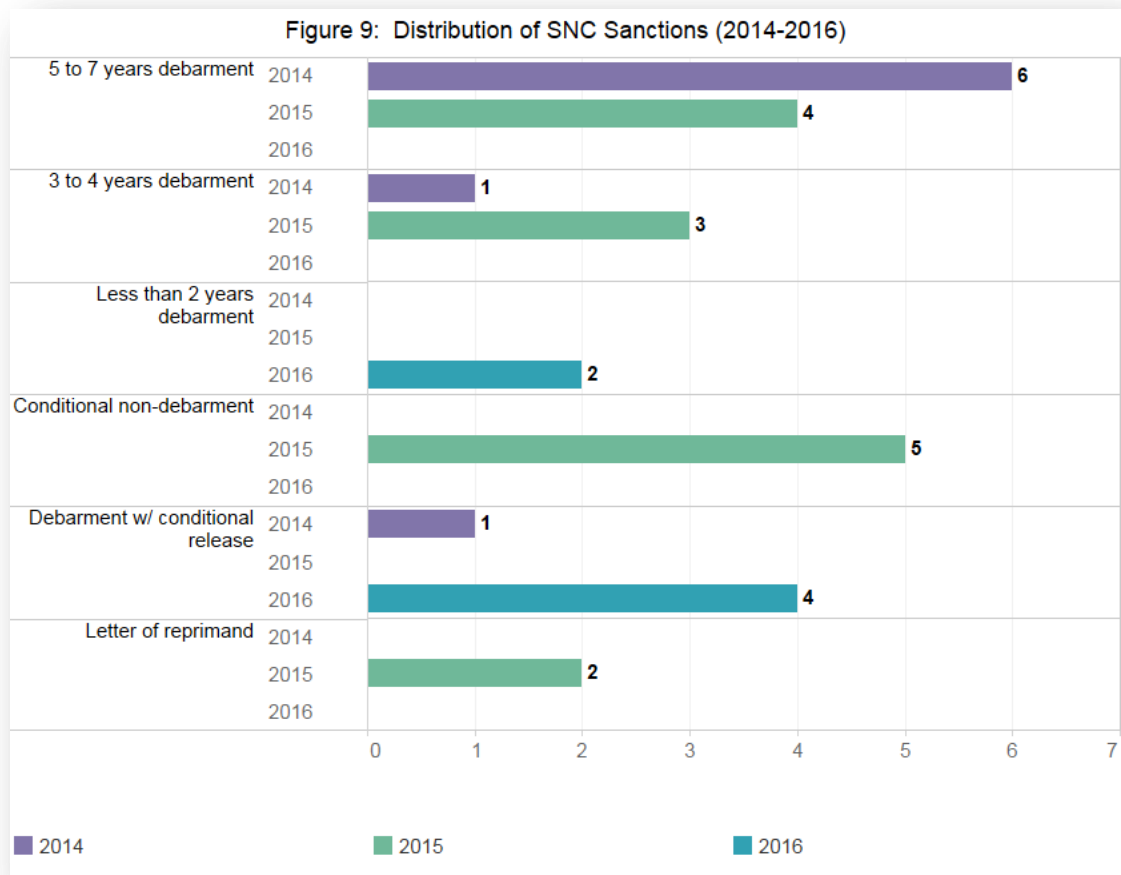
3.24 The Secretariat has also reviewed submissions related to the fulfillment of conditions of ten decisions issued by the SNC in previous years, and that involved sanctions of conditional non-debarment and debarment with conditional release². Of these, four Respondents were debarred by the SNC in 2016 under debarment with conditional release, five Respondents in 2015 under conditional non-debarment, and one Respondent in 2014 under debarment with conditional release in 2016. Four Respondents partially met the set of conditions and six had their debarment confirmed by the SNC as they did not meet the conditions required.

3.25 Furthermore, the Executive Secretariat drafted 102 communications (i.e. related to debarments, cross-debarments, fulfillment of conditions) and referred them to OII, Respondents, Country Representatives and Executive Directors.

3.26 **Sanctions.** In 2016, the SNC issued seven decisions, imposing sanctions in six of them as indicated in Figure 8. The nature of the sanctions and years of debarment imposed is summarized in Figure 9 below.



² These are types of sanctions the SO and SNC may impose and that differ from the traditional debarment in that the sanctioned party is required to comply with certain conditions in order to avoid the debarment, to reduce the debarment period, or to be reinstated after the debarment period expires.



3.27 Cross Debarment Agreement. The 11 debarments³ issued by the SNC complied with requirements for cross-debarment and were communicated to the other MDBs.

3.28 List of sanctioned firms and individuals. As the administrator of the list of Sanctioned Firms and Individuals, the Executive Secretariat published the 46 debarments⁴ (35 issued by the SO and 11 issued or amended by the SNC) that the sanction system imposed and 98 debarments that were imposed by other MDBs (77 from the WBG, 18 from the ADB and 3 from the EBRD) and the IDB Group recognized under the Cross-Debarment Agreement.

³ Six debarments are related to decisions issued in 2016 and five refer to conditional non-debarments decisions issued in 2015 and amended in 2016.

⁴ For more details refer to Appendix 2

Case Summary 7 Rehabilitating Companies

During 2016, the Sanctions Committee reviewed a case related to charges of fraudulent practices in the context of a program financed under a loan contract between the Bank and a member country.

Under this case, the Sanctions Committee issued a 7-year debarment with conditional release against a Company, its managing director, tender coordinator and a subsidiary company. The Sanctions Committee determined that it was more likely than not that the Respondents had engaged in fraudulent practices in relation to the participation of their Company in different Bank-financed tenders. The conditional release subjected the Company to the fulfillment of two sets of conditions. First, the restitution of funds and the retention of a recognized accounting firm to implement an anti-fraud and anti-corruption compliance program. Second, the retained firm has the obligation to submit a report within 27 months of the issuance of the decision (June 30, 2018) to demonstrate that the Company has implemented an effective program.

The first set of conditions were successfully met by the Company within the required time frame. This stage required substantial collaborative work among the Office of the Executive Vice-President, the Legal Department, the Finance Department, SNC, OII, SO, and the SNC.

It is considered a hallmark case as it was the first case in which the Sanctions Committee has imposed a conditional release associated with a debarment sanction, encouraging the Respondents' rehabilitation.

B. Prevention Function Outputs

3.29 OII devotes a significant part of its resources to pursue preventive activities. These relate mostly to IDB Group financed operations, but increasingly have also covered corporate activities.

3.30 **Advice related to SG Operations.** OII provides advice to operational staff working on SG operations when consulted or when it identifies integrity risks as a result of its investigative activities. As this is an area of growing importance, only in 2017 will OII

start to keep statistics on the number of consultations it addresses. Nonetheless, it is noteworthy that in 2016 OII received consultations that originated at different stages of the project cycle and from different areas within the Bank. For example, some consultations were received during the design phase, including during the review by the Operations Policy Committee to ensure that integrity risks arising from particular circumstances had been considered. These consultations lead to a risk assessment for the individual projects, but, importantly, also helped set the tone from the top, as senior management signaled that integrity must be considered during project appraisal. Other consultations were received in relation to specific procurement processes, contract amendments and consideration of national enforcement actions, among others.



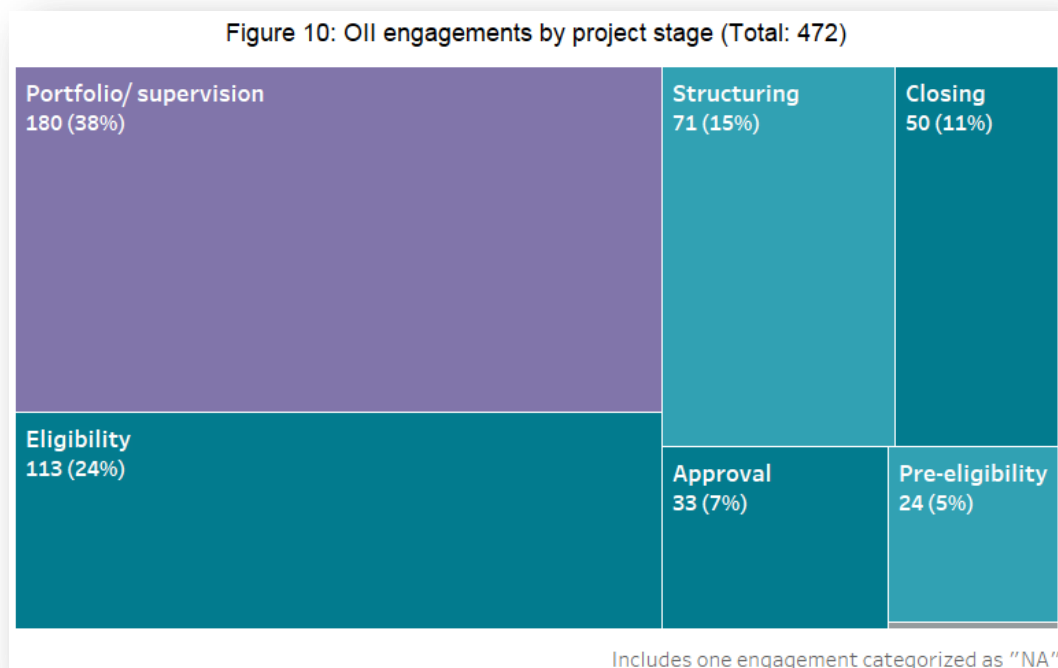
- 3.31 OII also conducted Integrity Risk Reviews (IRR) of two Bank-financed programs. The IRRs assessed the integrity risks arising in relation to the internal controls and key processes in place within the executing agencies implementing the projects. Among others, OII offered the following recommendations to project teams and executing agencies: (i) adoption of mechanisms to report fraud and corruption; (ii) improvements in safeguards to protect the confidentiality of bid-related documents; (iii) implementation of systems to identify and resolve conflicts of interests; (iv)

streamlining processes to process disbursements; (v) building capacity of members of evaluation committees; and (vi) strengthening mechanisms to monitor the delivery of goods to ultimate beneficiaries.

- 3.32 At a more general level, OII worked with FMP Management in the development of guidance for all FMP specialists on handling situations related to prohibited practices in Bank-financed activities. OII also advised FMP in connection with the clauses and provisions included in standard bidding documents, to ensure the Bank has appropriate tools to react to integrity violations.
- 3.33 In 2016, OII formed part of a working group reviewing and updating the approach the Bank uses to manage risks in SG operations. As a result of this review process, the risk methodology to be fully implemented in 2017 includes integrity risk indicators such as the existence of past investigations by OII into allegations of prohibited practices. Teams preparing projects will need to consult with OII on mitigation measures when: i) there has been an investigation into allegations of prohibited practices in a predecessor project or in projects previously managed by the proposed executing agency; and/or ii) weaknesses that increase the integrity risk are identified.
- 3.34 Lastly, OII convened a working group to identify and assess integrity risk indicators of contractual amendments in SG operations as a means to reduce risks of unnecessary cost overruns, fraud, and corruption. The working group mapped the general process to give no objections to contractual amendments and identified opportunities for improvements from an integrity perspective. OII concluded that there are important risk factors that increase the likelihood that prohibited practices may occur. For example, weak capacity of the executing agency, lack of updated market studies, lack of independent supervision or independent studies, and unresolved conflicts of interests.
- 3.35 **Advice in connection to Integrity Due Diligence of IIC operations.** Under the IIC's revised procedures, OII engages in connection with all projects at the eligibility and structuring phases and once a year during the life of the loan, if issues arise. Because the engagement at each phase represents a distinct element of work for OII, and because many projects begin their project cycle in one year and finish in another,

tracking OII's "engagements" on IIC projects is the best way to monitor the overall quantity of support OII provides IIC in connection with these operations.

- 3.36 As described in Figure 10, OII engaged 472 times on IIC projects in 2016, across different phases of the project approval and supervision cycles.



- 3.37 The substance of these engagements varies considerably, depending on the issues encountered. The bulk of these engagements consist of OII providing advice regarding how to assess and mitigate the risk presented by specific risk indicators. Specific substantive engagements arose from the approval of the IIC Integrity Framework. From July through December, OII conducted heightened AML/CFT risk assessments on 22 financial institution counterparties of the IIC. Note that none of these were triggered by FATF assessments; rather, they were triggered by other jurisdictional or client-related risk indicators.

- 3.38 In addition, from July through December, OII conducted 33 structural integrity reviews. Of those, five were triggered by the use of entities in jurisdictions that present tax information exchange risk (based on the output of the Global Forum) and 28 were based on other risk indicators.

- 3.39 In 2016, 15 projects were dropped (or frozen, in the case of existing TFFP lines) based, at least in part, on integrity risks and related reputational impacts. Such decisions were often made at a preliminary stage based on more than one concern and may not be solely attributable to the integrity issues identified.

Examples of Projects that Presented Integrity Risk Outside of IIC's Appetite

1. Heightened AML/CFT due diligence identifies bank lacking adequate controls

A Central American bank was proposed as an issuing bank in the IIC's TFFP program. Because trade finance presents heightened money laundering risk (international trade transactions are commonly used to launder the proceeds of crime), OII assessed whether the bank had adequate AML/CFT policies and procedures to prevent trade-based money laundering. Following its review, OII concluded that the bank lacked adequate policies and procedures, and recommended that IIC not proceed with the operation until the bank was able to demonstrate that they have adopted and implemented such procedures. Based on that advice, IIC dropped the operation. IIC and OII are continuing to engage with the bank to address these deficiencies, and OII has provided substantive advice regarding the controls that the bank would need.

2. Tax review identifies intentional opacity/ abusive tax practices

OII conducted structural integrity due diligence on a family-owned manufacturing company because it was owned through a complex cross-border structure that included multiple offshore trusts (though no entities established in jurisdictions presenting tax information exchange risk, based on the output of the Global Forum). Through that review, which included a review of local laws, OII found that one element of the trust structure could be used to hide assets of one of the shareholders – a national of the project host country – from the tax authorities of the project host country. OII raised this risk and potential mitigating approaches with the shareholder, at which time the shareholder admitted that the purpose of the structure was to hide assets from local authorities in the context of a family dispute. Based on this answer, OII recommended and IIC agreed not to pursue the project.

- 3.40 **Consultations unrelated to SG Operations or IIC Operations.** In 2016, OII continued to provide support to the Multilateral Investment Fund (MIF), the Office of Outreach and Partnerships (ORP) and other IDB units in response to specific consultations. OII provided advice in response to 25 such consultations from ORP

and 12 such consultations from MIF. In addition, in 2016 OII worked with both MIF and ORP on developing due diligence procedures applicable to MIF technical cooperation and ORP partnerships.

- 3.41 **Reports of Investigation.** OII shares findings and lessons learned with operational staff principally through ROIs and Advisory Notes, which are issued prior to the completion of an investigation, when preliminary findings indicate significant risks that require a response. During 2016 OII shared 15 such documents with the relevant Bank Country Managers, Sector Managers, Division Chiefs and Country Representatives and one with the MIF. These reports are also shared with the chair of the ACPC. With the assistance of Country Representatives, findings and recommendations from Advisory Notes were also used to inform the relevant governmental authorities of the risks identified and to define necessary measures to address them.
- 3.42 **Training Activities.** In 2016, OII conducted a total of 17 knowledge-sharing and training activities for the Bank. These, were primarily offered to sectoral division staff and focused on discussing lessons learned from investigations and tools that project teams can use to mitigate integrity risks. OII also offered four trainings to IIC staff, which focused on IDD procedures.
- 3.43 To raise awareness of the Sanction System among new IDB staff, OII also participated in the On-Boarding sessions. OII also provided inputs to the online training program designed by Ethics Office to ensure IDB Group staff are well aware of their obligation to report prohibited practices.
- 3.44 The Chief of OII participated in the meeting of Country Representatives, to discuss how they can help set the tone and continue instilling a culture of integrity at the Country Offices as well as to explore ways in which OII can further support them in fulfilling this responsibility.
- 3.45 OII also organized an innovative training activity for project team leaders, procurement specialists and OII investigators. The training was designed as a one-day simulation exercise around a hypothetical allegation. Participants played a role distinct from their

role at the Bank. The participants gained knowledge of the demands and challenges of each function when faced with an investigation and the need to manage associated integrity risks. They also learned about the value of collaborative problem-solving in preventing prohibited practices in IDB financed projects.

- 3.46 For external audiences, OII offered training to executing agencies and audit firms of projects financed by the Bank in Trinidad and Tobago. During these trainings, OII explained the IDB Sanctions System, shared insights from investigations, red flags of prohibited practices and discussed measures to mitigate integrity risks.
- 3.47 **Policy Development and related work.** In 2016 OII provided comments to the new Policy for Contracting Consulting Firms for Bank Executed-Operational work. OII inputs focused on ensuring that the firms the Bank hires are aware of the Bank's integrity requirements and that the Operational Consulting Services Unit has tools to identify and respond to integrity red flags, with OII's advice when necessary.
- 3.48 OII also provided comments to the proposal to establish the Bank's SG Loan Based on Results, to ensure that integrity provisions are included and that the Bank retains jurisdiction to investigate and sanction, with adjustments required for these types of operations.

C. Other Outputs and Activities

Work under the Direction of the Anti-Corruption Policy Committee

- 3.49 Under the direction and oversight of the ACPC, OII, the SO and the SNC, together with various units in the IDB Group, worked in the development of guidelines that support the application of the Sanctions Procedures. These include guidelines on the use of resources received from sanctioned parties, either in the form of restitution or penalty, and guidelines on the roles that the different units of the Sanction System would play in relation to the verification of conditions related to decisions of debarment or non-debarment. This work is ongoing.

Collaboration with Multilateral Development Banks and Other Stakeholders

- 3.50 **Multilateral Development Banks.** OII, the SO and the SNC continued to coordinate their efforts with their counterparts at comparator institutions and with other stakeholders within the private sector, academia, and the legal community.
- 3.51 As in previous years, OII participated at the **Private Sector Conference on Integrity**, which in 2016 was hosted by the European Investment Bank (EIB) and the Council of Europe Development Bank. OII Chief also met with the **Heads of Integrity** of the ADB, EBRD, EIB and WBG to discuss issues of common interest and advance in their harmonization efforts.
- 3.52 The SNC attended the fourth “Meeting of the MDBs’ Sanctions Appeals Bodies,” organized by the EBRD in London, U.K. The Working Session was attended by members of Sanctions Appeals Bodies of the AfDB, the ADB, the Global Fund, the WBG, as well as their Secretariats. During the meeting, the participants discussed the challenges and opportunities they face, as well as strategies for further collaboration.
- 3.53 The SO participated in the First-Tier Sanctions Officers' "Summit" organized by the WBG, with the participation of the EBRD in Washington D.C. This meeting serves as a forum to share experiences and best practices among the different MDBs’ First Tier Officers.
- 3.54 The OII Chief and the SO also participated in the IACC, which is the world premier anti-corruption forum bringing together civil society, heads of state and the private sector to tackle the increasingly sophisticated challenges posed by corruption. The IACC draws attention to corruption by raising awareness and stimulating debate. The OII Chief moderated the panel “Enabling Integrity through incentives, innovation and international cooperation: MDBs perspectives on successes and challenges in the global fight against corruption. The SO participated in the panel “MDB Sanctions Systems: Using Suspension and Debarment as a Tool to Combat Corruption in Development.” OII also organized a third panel on the use of data and indicators to identify and mitigate corruption risks in procurement.

- 3.55 **Compliance professionals and legal community.** OII, the SO and the Executive Secretary of the SNC participated in a number of conferences and events targeting compliance professionals and the legal community that practices in the area of international bribery. MDB sanctions systems are drawing attention from these groups and ultimately having an impact in changing behavior of the companies for which they work.
- 3.56 In November, OII participated in an “International Conference on Responsible Taxation in Development Finance”, which was organized by Eurodad and Oxfam IBIS in Brussels. At this conference, OII described the structural integrity review adopted by the IIC, and discussed how it seeks to address tax-related risks that may arise in operations with private sector entities
- 3.57 **Academia.** Staff from OII, the SO, and the SNC also participated in conferences, symposia and lectures at different universities, including the International Anticorruption Academy.

Commemoration of International Anti-Corruption Day

- 3.58 To commemorate International Anti-Corruption Day 2016, the Sanctions System, the Institutional Capacity of the State Division, and the Office of External Relations invited the Colombian theater group, “Teatro Libre” to perform in its play “Fire and Brimstone”. The play portrays, in a comic and sarcastic manner, the interaction between a rich and renowned lawyer, representing a corrupt company and a prosecutor who struggles between his commitment to deliver justice and the bribes the company is offering.



3.59 As in previous years, President Moreno participated with opening remarks. In his speech he emphasized the importance of working with member countries to close the door to corruption. He reflected on the role citizens are playing because they understand corruption is depriving them from better lives and a better future for their children. According to President Moreno, this is a historic moment and one in which we must redouble our efforts in support of transparency and integrity. In referring to the IDB Group operations, he spoke of the importance of a dual approach that manages risks through prevention activities, but that also relies in the robust sanction system.

APPENDIX I: ROLES AND RESPONSIBILITIES OF THE OFFICE OF INSTITUTIONAL INTEGRITY, THE SANCTIONS OFFICER AND THE SANCTIONS COMMITTEE: AN OVERVIEW

A. Origins and Rationale of the Integrity Function at the IDB Group

1. The 2001 adoption by the Board of Executive Directors of the report on “Strengthening a Systemic Framework against Corruption for the Inter-American Development Bank” (Systemic Framework) marked an important milestone in the development of the IDB Group’s stance against corruption. Since then, the IDB Group has made important investments to ensure that the integrity of its operations remains paramount. The Systemic Framework provided the IDB Group with a solid foundation to address the limitations on development caused by corruption. This study was the result of sweeping changes in the anti-corruption field that started with the 1996 Inter-American Convention against Corruption. Subsequently, the anti-corruption field has seen continued evolution, including the 1997 Organization for Economic Co-operation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and the 2003 United Nations (UN) Convention against Corruption.
2. Central to the Systemic Framework was the fiduciary responsibility of the IDB Group to ensure that its funds are used for their intended purposes, a mandate that is explicit in the Agreement Establishing the Inter-American Development Bank. The Systemic Framework emphasized the need to consider integrity in the design and execution of operations, but also recognized the need for a mechanism to address allegations of fraud and corruption. To that end, the Office of the Executive Auditor (AUG) was initially charged with the responsibility for carrying out investigations of such matters. The IIC adopted a Mechanism to Combat Fraud and Corruption in 2001.
3. OII was created in 2003, when the number of allegations related to fraud and corruption received by the IDB Group had increased to a degree that called for the creation of a specialized unit responsible for addressing and investigating such allegations. In 2006, the Bank decided to expand due diligence in connection with private sector operations to cover integrity matters, and OII was mandated to oversee its implementation.

4. Between 2007 and 2008, the Systemic Framework was reviewed by external consultants, led by former US Attorney General Dick Thornburgh. In 2009, the IDB Board of Executive Directors and Management agreed on an action plan to implement the recommendations of this review, comprising the inclusion of OII in the organizational chart of the Bank as a separate and independent office, and the creation of a two-tier adjudicative system comprised of the SO and the SNC, and regulated in Sanctions Procedures that ensure a fair process for investigated parties. Similar systems currently exist at the World Bank Group (WBG), the African Development Bank Group (AfDB Group), the Asian Development Bank (ADB), and the European Bank for Reconstruction and Development (EBRD). The IIC's Board of Executive Directors approved the IIC's updated Framework to Prevent and Combat Fraud and Corruption in 2011, which established a formal link to IDB mechanisms, ensuring consistency across the IDB Group activities. More recently, in 2016, the IIC revised its framework with the adoption of the IIC Integrity Framework, which continues to leverage on the IDB's sanction mechanisms, while assigning roles and establishing specific integrity due diligence requirements that are aligned with the nature of the IIC and its operations.
5. The implementation of the action plan and subsequent reforms, including a 2015 amendment of the Sanctions Procedures, were part of the Agenda for a Better Bank, critical to the Ninth General Capital Increase and to the development effectiveness of IDB Group Operations. As such, OII and the Sanctions System fulfill a fiduciary role that is essential to the achievement of IDB Group objectives and to protecting its reputation.

B. MDBs Uniform Framework for Preventing and Combating Fraud and Corruption

6. In 2006, the MDBs, the European Investment Bank (EIB) and the International Monetary Fund (IMF) adopted a harmonized approach to integrity matters by signing The Uniform Framework for Preventing and Combating Fraud and Corruption (Uniform Framework). This Uniform Framework standardized the definitions of "Prohibited Practices" for which entities and individuals could be sanctioned.
7. This harmonization effort was further solidified by the 2010 Agreement on Mutual Enforcement of Debarment Decisions signed among the MDBs (Cross-Debarment

Agreement), which allowed for any entities or individuals sanctioned by an MDB to be subsequently excluded from participating in activities financed by all of the other MDBs. This raised the stakes of corruption and other Prohibited Practices, generating a deterrent effect. The Cross-Debarment Agreement is today effective for all the MDBs. As of December 31, 2016, 600 corporations and individuals were debarred or cross-debarred by the IDB, with 100 originated from debarments imposed by the IDB Group⁵.

8. The harmonized approach to integrity matters was the result of a task force that developed a consistent and harmonized approach among MDBs to increase the effectiveness of each institution's efforts to combat corruption in their activities. The elements of the Uniform Framework have been, and continue to be further developed by the MDBs, acting collectively and within each institution's own policies and procedures. As a result of these harmonization efforts, the MDBs and the European Investment Bank have harmonized sanctioning guidelines and principles for the treatment of corporate groups.

C. Prohibited Practices

9. IDB Group efforts to manage integrity risk are grounded in the concept of Prohibited Practices. This concept is reflected in the following harmonized definitions.

PROHIBITED PRACTICES

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

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

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

Obstructive Practice: (a) Deliberately destroying, falsifying, altering or concealing evidence material to the investigation or making false statements to investigators in order to materially impede an IDB Group investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation; or (b) acts intended to materially impede the exercise of the Bank's inspection and audit rights.

⁵ Many more sanctions have been imposed and recognized throughout the life of the Cross-Debarment Agreement, but companies and individuals have been reinstated when their debarments elapsed and, in certain cases, after they complied with conditions for reinstatement, including the adoption of compliance programs.

D. The Sanctions System

Investigative Office

10. OII is an independent office of the IDB that reports directly to the President of the IDB. It also reports its activities and results to the Audit Committee of the Board of Executive Directors of the IDB (the Audit Committee) and the Committee of the Board of Directors of the IIC.
11. OII's investigative activities are the first step of the Sanctions System. OII's investigative work is the input for the adjudicative work of the SO and the SNC.
12. OII investigations seek to determine whether an external party has engaged in Prohibited Practices in an IDB Group financed activity. OII investigations are generally triggered by complaints. However, OII may undertake investigations based on information that it uncovers proactively or that is publicly available. Investigations can relate to any activities financed by the IDB Group, including corporate procurement.
13. The investigative process is divided into three phases: (i) Pre-Investigation, which includes complaints processing and preliminary inquiries; (ii) Full Investigation; and (iii) Post-Investigation.
14. **Pre-Investigation Phase.** Complaints originate from various sources (including IDB Group employees, third parties, and anonymous sources) and can be received through several different reporting channels, (including e-mail, the OII website, a telephone hotline, and in-person reporting).⁶ Complaint processing involves two separate tasks: (i) creating records of complaints in the Case Management System; and (ii) assessing the relevance of complaints as they relate to OII's mandate. OII determines relevance by assessing whether the complaint:
 - concerns a Prohibited Practice;
 - relates to activities financed or to be financed by the IDB Group; and
 - provides sufficient information to be credible.

⁶ Information on how to report fraud and corruption can be found at:
<http://www.iadb.org/en/topics/transparency/integrity-at-the-idb-group/how-to-report-fraud-and-corruption,2872.html>

15. If a complaint meets the initial assessment criteria, OII converts it into an allegation and commences a preliminary inquiry. If a complaint does not meet the threshold criteria, OII closes the case, but may refer it to relevant departments or other organizations for possible action.
16. During a preliminary inquiry, the intake unit determines whether a full investigation is warranted. OII makes this assessment by consulting with relevant IDB Group staff, conducting preliminary interviews of complainants and witnesses, and considering various factors, including:
- the egregiousness of the alleged wrongdoing;
 - the viability of the investigation;
 - the amount of loss or harm resulting from the alleged wrongdoing;
 - the possibility of systemic problems;
 - the likelihood that the subject engaged in similar conduct in other IDB Group- financed activities; and
 - time-sensitivity of the underlying activity.
17. The information gathered through this process enables OII to better understand the allegation's potential impact on the IDB Group financed activity, its development objectives, and its beneficiaries. It also helps OII determine whether the allegation merits the resources that would be invested in a full investigation.
18. **Full Investigation Phase.** Once OII converts a preliminary inquiry into a full investigation, a team of investigators – usually two – is assigned. This team conducts a fact-finding exercise that may involve, among other things, expert consultations, interviews, document reviews, site inspections, and audits. The investigation team seeks to corroborate facts by obtaining evidence from multiple sources that collectively inform OII's conclusions. Based on this evidence, the Chief of OII determines whether the evidence gathered supports a finding that the subject of an investigation is more likely than not to have engaged in a Prohibited Practice.

19. **Post-Investigation Phase.** If this standard has been met, OII prepares one or more Statement(s) of Charges (SOC). A SOC must attach the evidence that supports such findings, together with any exculpatory evidence. These documents are sent to the SO, and are the focus of the first instance of the adjudication phase of the Sanctions System.
20. In addition, if a sanction determined by the SO is appealed to the SNC, OII participates as a party in the resulting process. In this capacity, OII prepares a reply to the Respondent's appeal and provides any information or materials required by the SNC. OII will also take part in any hearings held in connection with such appeals, which may require OII to deliver oral arguments or examine any witnesses appearing at the hearing.
21. In addition, following a full investigation, the investigators assigned to the case will work with the prevention team to prepare, as required, a report of investigation for the relevant Managers and operational staff.

The Sanctions Officer

22. The SO is a Bank staff member appointed by the President of the IDB, in consultation with the Audit Committee. The SO reports his activities and results to the Audit Committee. The SO determines whether there is sufficient evidence to support OII's investigative findings and if warranted, imposes sanctions. As part of that review, the SO evaluates the sufficiency of the evidence submitted by OII, assesses the investigated party response, and may request information or materials from OII or the Respondent.
23. The SO issues five types of Determinations. All determinations are based on the standard of preponderance of the evidence:⁷
1. Notices of Administrative Action (Notices);
 2. Determinations of Insufficient Evidence;
 3. Determinations of Sufficient Evidence, in which the SO determines that a finding of a Prohibited Practice is supported by a preponderance of the evidence and imposes a sanction on the Respondent;
 4. Determinations of Temporary Suspension, in which the SO temporarily

⁷ According to the Sanctions Procedures, the standard of preponderance of the evidence means that it is more likely than not that the respondent has engaged in a Prohibited Practice

suspends a party from eligibility to participate in, or be awarded, additional contracts with IDB Group funds; and,

5. Determinations of Expiration of Statute of Limitations.

24. **Notices of Administrative Action (Notice).** The SO issues a Notice after reviewing OII's SOC, and determining that it is more likely than not that the Respondent engaged in a Prohibited Practice. The main purpose of a Notice is to notify the Respondent of the commencement of administrative sanctions proceedings and to provide the Respondent an opportunity to respond to OII's SOC.

25. **Determinations of Insufficient Evidence.** After reviewing OII's SOC, the SO may determine that there is insufficient evidence in a case, and issue a partial or total dismissal of the allegations, or exclusion of Respondents included in the SOC. In case of a total dismissal, and after consulting with the Chairperson of the SNC, the SO issues a Determination concluding that the evidence submitted by OII is insufficient to support a finding of a Prohibited Practice. In these cases, proceedings against Respondents are concluded without prejudice. The SO can also issue Determinations of Insufficient Evidence when the Respondent responds to OII's SOC, and provides information to determine that there is insufficient evidence to support a finding of a Prohibited Practice.

26. **Determinations of Sufficient Evidence.** After reviewing the Respondent's Response, if the SO finds that it is more likely than not that a Prohibited Practice has occurred, the SO issues a Determination recording his findings and imposes a sanction on the Respondent.

27. **Determinations of Temporary Suspension.** The SO may determine, in consultation with the Chairperson of the SNC, to temporarily suspend a party from eligibility to participate in, or be awarded additional contracts for Projects, while investigations or sanctions proceedings are ongoing. The SO considers such determinations upon recommendation of OII with the submission of substantial evidence that supports an allegation of a Prohibited Practice. The SO will issue these types of determination when it is concluded that the award of contracts to the concerned party or its participation in additional Projects could result in significant harm to the IDB Group or an IDB Group-financed Project.

28. **Determinations of Expiration of Statute of Limitations.** The SO issues these determinations in cases where the Prohibited Practices happened more than ten years

prior to the submission of the SOC. In this case, the SO issues a Determination dismissing the allegations and terminating the sanctions proceedings.

29. After the SO issues a Notice, the Respondent has 60 days for submitting a Response. The SO assesses the submissions delivered by the Respondent and OII, and issues a Determination. If the SO finds that a Prohibited Practice is supported by a preponderance of the evidence, he issues a Determination of Sufficient Evidence reporting his findings and imposing a Sanction on the Respondent. On the contrary, if the SO finds that a Prohibited Practice is not supported by a preponderance of the evidence, he issues a Determination of Insufficient Evidence reporting his findings, dismissing the allegations, and terminating the proceedings.
30. If the Respondent does not submit a Response within 60 days, the SO considers that the Respondent has admitted the allegations set forth in the Notice and will issue a Determination with a sanction. In such case, the Respondent cannot appeal the SO's Determination and the Determination becomes final.
31. The sanctions imposed by the SO (and the SNC, in the second instance) are based on the Sanctioning Guidelines, which were adopted by the SO and the SNC. They are in line with the harmonized General Principles and Guidelines for Sanctions.

SANCTIONS

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

- Reprimand
- Debarment for a determined period
- Permanent debarment
- Conditional debarment
- Conditional non-debarment
- Debarment with conditional release
- Restitution of funds or impositions of fines

The Sanctions Committee and its Executive Secretariat

32. The SNC is an independent seven-member committee (four members external to the IDB Group, and three Bank staff members with an alternate IIC staff member), assisted by an Executive Secretariat. The President of the IDB appoints the members of the SNC and its Executive Secretary and, in consultation with the Audit Committee of the Board, designates a Chairperson of the SNC from among its members. The SNC serves as the second and final instance of the adjudication phase of the Sanctions System.
33. The SNC adjudicates cases in which Respondents have contested a Determination issued by the SO. The SNC is responsible for ensuring that the appeals process is followed (Appeals Processes) and for issuing final Decisions (Substantive Output).
34. **Substantive Output.** The SNC can decide cases either through three-member panels (two external members and one Bank staff) or through a full Committee, with a required quorum of five members. The SNC reviews the written submissions made by OII and the Respondents, and can hold hearings where OII and the Respondents have the opportunity to address the SNC directly. When hearings are held, the Chairperson of the SNC generally convenes a full Committee quorum.
35. The SNC analyzes whether the evidence supports the conclusion that a Prohibited Practice occurred and, if so, what sanction to impose. All Committee Decisions are final and cannot be appealed.
36. **Appeals Processes.** The Executive Secretariat serves as a registry for the SNC, and manages all notices and submissions related to the SNC's proceedings and Decisions. These include, in addition to other *ad hoc* submissions and communications, receiving appeals from Respondents and replies from OII and notifying the parties of such submissions. The Executive Secretary is also in charge of certifying Respondents' failure to file an appeal and drafting SNC Decisions.
37. The Executive Secretariat manages the publication of sanctions, including those imposed by the IDB Group, as well as those imposed by other MDBs and recognized by the IDB Group under the Cross-Debarment Agreement. In addition, the Executive Secretariat communicates Determinations of Temporary Suspension issued by the SO to relevant units within the IDB Group.

E. The Prevention Function

38. While the Sanctions System addresses the possibility that Prohibited Practices may have occurred in IDB Group Operations, OII's preventive activities seek to identify and mitigate integrity risk and any reputational impact to the IDB Group related to such risk. Prevention activities consist primarily of:

- advising IDB Group operational units regarding specific operations;
- sharing lessons learned from investigations with operational staff;
- providing training to internal and external stakeholders;
- designing tools to gather and assess information that may indicate the presence of integrity risks;
- contributing to the development of policies that improve the IDB Group's ability to detect and reduce integrity risk; and
- overseeing integrity due diligence (IDD) processes at IIC.

39. **Advice Regarding IIC Operations.** IIC manages integrity risks in its operations primarily by conducting integrity due diligence (IDD) on all counterparties and other relevant entities. Guidelines require project teams to conduct IDD for each operation, and to update that due diligence throughout the life of the project. IDD includes the following components: (i) general integrity review; (ii) AML/CFT review, for financial institutions, and (iii) structural integrity review.

40. OII advises project teams, management and the IIC Board of Executive Directors in connection with individual operations. Such advice relates to the identification, assessment and – when those risks are heightened or significant – the mitigation of integrity risks or impact on the reputation of the IDB Group. OII also oversees the IDD process.

41. **Advice Regarding SG Operations.** For SG operations, integrity risk management is focused on identifying, during the design and implementation phases of a program, weaknesses and vulnerabilities that could allow for members of executing agencies, bidders, suppliers, contractors, consultants or other participants in IDB Group financed operations to engage in Prohibited Practices or unethical behavior.

42. Integrity risk management in SG operations is the collective responsibility of sector and fiduciary specialists and their supervisors, and is embedded in the project risk management process. OII helps teams fulfill this responsibility by advising on the identification and valuation of risk indicators, and making recommendations regarding risk mitigation strategies. OII may provide such advice in response to specific consultations, but more frequently participates in SG operations when risks have been identified through an investigation or other means.
43. **Advice Regarding activities of other IDB Units.** OII also provides advice to other IDB Group units upon request. Such units have included the Office of Outreach and Partnerships (ORP), the Finance Department, the Corporate Procurement Division and the MIF in connection with its technical cooperation operations. OII's advice to such units generally involves the identification, assessment and – when appropriate – the mitigation of integrity risks and its reputational impact.
44. **Reports of Investigation and Advisory Notes.** OII extracts lessons learned from investigations regarding the identification and mitigation of integrity risks. OII shares this knowledge with operational staff through reports of investigation (ROIs) and Advisory Notes – joint products of the investigative and preventive teams of OII. ROIs are prepared following completion of an investigation. They communicate any deficiencies or weaknesses in an IDB Group financed operation that were identified during the investigation and suggest concrete areas of action to address them. Advisory Notes, on the other hand, communicate time-sensitive indicators of integrity risk to operational staff and management during the course of an investigation and recommend immediate actions to address imminent risks.
45. The findings and conclusions reflected in ROIs may be shared with the relevant government authorities responsible for implementing or overseeing implementation of the affected IDB Group financed operation. In addition, OII, the SO or the SNC may recommend sharing information with enforcement authorities.
46. **Training to Internal and External Stakeholders.** OII provides training for two broad purposes: (i) increasing awareness of the Bank's integrity framework and the responsibilities of IDB Group employees, executing agencies, beneficiaries of IDB Group financing and private sector entities; and (ii) building internal and external capacity to

manage integrity risk in IDB Group operations. OII's training materials are informed by applicable policies and procedures, and incorporate case studies from investigations and prevention consultations.

47. **Development of New Tools.** OII works with operational units to develop tools to manage integrity risk and add value to specific projects (e.g., enhanced due diligence of corporate structures).

48. **Policy Development and related work.** As required, OII works on updating integrity-related policies and procedures and regularly contributes to other IDB Group policies to ensure that the integrity concerns are clearly articulated in operational policies.

APPENDIX II: Entities and Individuals Sanctioned in 2016

Name	Entity type / Nationality	Country of Project	Ineligibility		Ground
			from	to	
Juan Muñoz Coello	Individual/Spain	Peru	Jan/19/2016	Jan/18/2024	Fraudulent and collusive practices
Supersea Marine, Ltd.	Firm/Bahamas	Bahamas	Jan/26/2016	Jan/25/2019	Fraudulent Practices
Eugene Smith Jr.	Individual/Bahamas	Bahamas	Jan/26/2016	Jan/25/2019	Fraudulent Practices
Westside Equipment, Ltd.	Firm/Bahamas	Bahamas	Jan/26/2016	Jan/25/2019	Fraudulent Practices
Robert Smith (also known as "Bob Smith")	Individual/Bahamas	Bahamas	Jan/26/2016	Jan/25/2019	Fraudulent Practices
David Roldán Berenguel	Individual/Spain	Peru	Mar/09/2016	Mar/08/2022	Fraudulent and Collusive Practices
Manuel Pérez Bustamante	Individual/Peru	Peru	Mar/09/2016	Mar/08/2021	Fraudulent Practices
Janet Cecilia Castillo Díaz	Individual/Peru	Peru	Mar/09/2016	Mar/08/2024	Fraudulent and Collusive Practices
Western Scientific Company, Limited	Firm/Trinidad	Guyana	Mar/31/2016	Oct/15/2020	Fraudulent Practices
SCIMED Scientific, Limited	Firm/Trinidad	Guyana	Mar/31/2016	Oct/15/2020	Fraudulent Practices
Mario Ricard Dell	Individual/Trinidad	Guyana	Mar/31/2016	Oct/15/2020	Fraudulent Practices
Edwin K. Mackoon	Individual/Trinidad	Guyana	Mar/31/2016	Oct/15/2020	Fraudulent Practices
Macotro, S.A. de C.V.	Firm/Mexico	Mexico	Jun/06/2016	Jun/05/2023	Fraudulent and Collusive Practices
Andrés Jaramillo Jaimes	Individual/Mexico	Mexico	Jun/06/2016	Jun/05/2023	Fraudulent and Collusive Practices
José Rogelio Lira Pineda	Individual/Mexico	Mexico	Jun/06/2016	Jun/05/2023	Fraudulent and Collusive Practices
Gabriel Cruz Cervantes	Individual/Mexico	Mexico	Jun/06/2016	Jun/05/2023	Fraudulent and Collusive Practices
Global Scientific, S.A. de C.V.	Firm/Mexico	Mexico	Jun/13/2016	Jun/12/2023	Fraudulent and Collusive Practices
Brenda Ponciano Mendoza	Individual/Mexico	Mexico	Jun/13/2016	Jun/12/2023	Fraudulent and Collusive Practices
Blanca Estela García Rodríguez	Individual/Mexico	Mexico	Jun/13/2016	Jun/12/2023	Fraudulent and Collusive Practices
Jesús Escorza Escorza	Individual/Mexico	Mexico	Jun/13/2016	Jun/12/2023	Fraudulent and Collusive Practices
Ramón Escorza Escorza	Individual/Mexico	Mexico	Jun/13/2016	Jun/12/2023	Fraudulent and Collusive Practices
José David Escorza Escorza	Individual/Mexico	Mexico	Jun/13/2016	Jun/12/2023	Fraudulent and Collusive Practices
Ryoho Tech de México, S.A. de C.V.	Firm/Mexico	Mexico	Jun/09/2016	Jun/08/2023	Fraudulent and Collusive Practices

Rebeca Ponciano Mendoza	Individual/Mexico	Mexico	Jun/09/2016	Jun/08/2023	Fraudulent and Collusive Practices
Johana Yasmin Contreras García	Individual/Mexico	Mexico	Jun/09/2016	Jun/08/2023	Fraudulent and Collusive Practices
Jose Fino Morales	Individual/Mexico	Mexico	Jun/09/2016	Jun/08/2023	Fraudulent and Collusive Practices
Manuel Vázquez Hernández	Individual/Mexico	Mexico	Jun/14/2016	Jun/13/2023	Fraudulent and Collusive Practices
A-la-Carte-Haïti (ACL)	Firm/Haiti	Haiti	Jun/28/2016	Jun/27/2018	Fraudulent Practices
Edna Désulmé	Individual/Haiti	Haiti	Jun/28/2016	Jun/27/2018	Fraudulent Practices
Ron Jaisari	Individual/Guyana	Guyana	Jun/30/2016	Jun/29/2022	Collusive and fraudulent practices
Siddaharta Rai	Individual/Guyana	Guyana	Jun/30/2016	Jun/29/2019	Collusive Practices
Sidrai Radiators Works	Firm/Guyana	Guyana	Jun/30/2016	Jun/29/2019	Collusive Practices
Sidrai Enterprises	Firm/Guyana	Guyana	Jun/30/2016	Jun/29/2024	Collusive Practices
PROCONSSA, S.A.	Firm/Peru	Peru	Feb/25/2016	Feb/24/2023	Fraud and collusion
Tecniaisla, S.R.L.	Firm/Peru	Peru	Feb/25/2016	Feb/24/2023	Fraud and collusion
Elmer Chávez Fuentes	Individual/Peru	Peru	Feb/25/2016	Feb/24/2023	Fraud and collusion
Mr. Abel Khemraj Rai	Individual/Guyana	Guyana	Aug/23/2016	Aug/22/2024	Fraudulent and collusive practices
Mr. Ricardo Antonio Castillo Leclair	Individual/Nicaragua	Nicaragua	Oct/03/2016	Apr/02/2018	Fraudulent Practices
George C. Benson	Individual/United States	St. Lucia	Sep/20/2016	Sep/19/2027	Fraudulent Practices
Regional Communications Ltd.	Firm/St. Lucia	St. Lucia	Sep/20/2016	Sep/19/2027	Fraudulent Practices
Cellucian Limited	Firm/St. Lucia	St. Lucia	Sep/20/2016	Sep/19/2027	Fraudulent Practices
Consultores Asociados Consa, S.R.L.	Firm/Bolivia	Bolivia	Dec/20/2016	Dec/19/2018	Fraudulent Practices
José Manuel Ramírez Pacheco	Individual/Bolivia	Bolivia	Dec/20/2016	Dec/19/2018	Fraudulent Practices
Jaime Antonio Suárez	Individual/Honduras	Honduras	Dec/30/2016	Dec/29/2022	Fraudulent Practices
Carlos Alejandro del Valle Mazariegos	Firm/Guatemala	Guatemala	Aug/7/2012*	Jun28/2023	Fraudulent and collusive practices
Construcciones Arquitectonicas Construsarq	Firm/Guatemala	Guatemala	Aug/7/2012*	Jun/28/2023	Fraudulent and collusive practices

(*) Extended on Jun/29/2016

Legend

Debarment imposed by
Sanctions Officer

Debarment imposed by
Sanctions Committee

