

STRENGTHENING A SYSTEMIC FRAMEWORK AGAINST CORRUPTION  
FOR THE  
INTER-AMERICAN DEVELOPMENT BANK

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I. Introduction

1.1 The present document identifies the necessary measures that will enable the Bank to strengthen and further integrate its current actions against corruption. The guidelines contained herein build on an existing body of policies and regulations that accounts for the Bank's strong record in this field for more than forty years. They reflect the Bank's need to address its member countries' rising concern with the limitations to development caused by corruption. They also respond to the Bank's need to periodically adjust its safeguards to prevent the risk of corruption in view of the growth and expansion of the institution.

1.2 The challenge of preventing and combating corrupt behavior is common to most societies and is being currently undertaken by public and private institutions both domestic and international. Corruption affects both the public and the private sector, distorting economic realities and creating perverse incentives that impact all levels of society. It is a threat to democratic institutions, serves as a detriment to the economic and social development of national economies and, if condoned and permitted to flourish, can seriously undermine the credibility of the state's institutions and structures. Corruption is generally understood to encompass acts performed by officials who use their positions wrongfully, or are requested to do so by others, to obtain some benefit for themselves or for others. Corrupt activities include, *inter alia*, the solicitation, payment or receipt of bribes, gratuities or kickbacks, extortion, improper use of information or property and peddling of influence. Fraud is generally understood to consist of any actions or omissions intended to misrepresent the truth so as to induce others to act in reliance thereof, with the purpose of obtaining some unjust advantage or causing damage to others.

1.3 Corruption and its effects are receiving greater attention in the vast majority of our member countries. Among the factors for this increased attention are governments that are intent on preserving the economic and democratic transformation of their countries over the last decade; a citizenry that is less tolerant and more vocal regarding the threats posed to the social and economic fabric of a country; a free press that more actively engages in investigative journalism; and local governments that are increasingly called to shoulder responsibility for delivery of services that previously were within the purview of national governments. The private sector is also concerned about the threats corruption poses to the proper functioning of the marketplace, in economies that are based on the belief that the marketplace is the most effective mechanism for allocating resources.

1.4 The Bank's shareholders have indicated their political will in jointly attacking corruption. Under the auspices of the Organization of American States in 1996, the countries of the hemisphere signed the first regional convention specifically designed to attack corruption, the Inter-American Convention Against Corruption. The Convention calls for collective action in

various areas, including transnational bribery, illicit enrichment, extradition, judicial cooperation, the exchange of evidence and the seizure and forfeiture of property, in relation to crimes of corruption. Furthermore, the Organization of American States General Assembly adopted in 1997 an inter-American program for the cooperation against corruption that lays out a common set of goals and activities for the member states of the institution.

1.5 At the Summits of the Americas, regional countries explicitly incorporated the issue of combating corruption and related matters into their priorities. The Miami Summit of 1994 specified that “Effective democracy requires a comprehensive attack on corruption as a factor of social disintegration and distortion of the economic system that undermines the legitimacy of political institutions.” The Miami Summit Plan of Actions included specific actions to be undertaken by governments in combating corruption. The Santiago Summit Declaration of 1998 stated that new impetus would be provided to the struggle against, *inter alia*, corruption and money laundering, and affirmed the determination of the governments to persevere in this effort.

1.6 Most recently, during the 3<sup>rd</sup> Annual Meeting of the Finance Ministers of the Hemisphere held in Cancún in 2000, there was agreement that “corruption has been recognized as a serious problem that adversely affects investment, public revenues, growth and development in much of the Western Hemisphere”. The Ministers called on the international financial institutions to provide assistance in combating corruption in areas of customs, tax, budget, procurement and financial regulatory administration, and called on member governments to ratify and implement the Inter-American Convention Against Corruption.

1.7 The Agreement Establishing the Inter-American Development Bank specifies the Bank’s mission to further the economic and social development of its borrowing member countries. Corruption, in all of its different forms, undermines such development and diminishes the support the Bank can provide in its activities in the region. The Bank’s shareholders addressed the need for the institution to take a more active role in dealing with issues of modernization of the state in the mandates that form part of the Eighth General Increase in the Resources of the Bank. The modernization of government (including, *inter alia*, the tax and budgetary systems, the executive, judicial and legislative branches of government, and regulatory and supervisory mechanisms) and the strengthening of civil society were incorporated into the development agenda for the Bank. In 1996, the Bank’s Board of Executive Directors approved the institution’s policy on Modernization of the State and Strengthening of Civil Society, designed to consolidate democratic systems and strengthen governance processes in the region. The mandates agreed to by the Bank’s shareholders and the provisions of the Bank’s Charter provide a firm basis for the Bank to support member country efforts to attack the causes and effects of corruption.

1.8 A similar matter of priority is the need to address the risks of potential vulnerabilities within the Bank and to ensure that there is a proper control environment in the institution’s operational activities. Forty years after the creation of the institution, the Bank has expanded its financial and non-financial activities, deals with borrowers other than the central governments of its borrowing member countries, has in place a number of different lending instruments and practices, and supports programs in new areas of activities. Such has been the rate and breadth of change, that the Bank must periodically review and adjust its policies and procedures so that

proper safeguards are in place to ensure efficiency and transparency in its operations and a proper control environment within the institution.

1.9 The present document provides a systemic framework to guide the institution's action in combating corruption. The Bank reiterates its commitment to address corruption in a comprehensive fashion, dealing with three separate but closely linked areas:

- a) Ensuring that Bank staff act in accordance with the highest levels of integrity and that the institution's internal policies and procedures are committed to this goal;
- b) Ensuring that activities financed by the Bank are free of fraud and corruption and executed in a proper control environment; and
- c) Supporting programs that will help the borrowing member countries of the Bank strengthen good governance, enforce the rule of law and combat corruption.

1.10 The Bank has taken actions in each of these areas to minimize the risks of corruption. These actions have reflected the institution's commitment to operate with transparency, within a structure of management controls, and guided by the mandates established by its shareholders.

1.11 There is a need for the Bank's ongoing commitment against corruption to be articulated in a more systemic strategy for various reasons. First, such an integrated approach will ensure that there is greater synergy between the Bank's efforts in each area. Second, addressing the risks of corruption simultaneously at the human resources level, at the project level, and as part of the Bank's assistance to its borrowing member countries is necessary because the boundaries between these areas are ill-defined and porous; improper action in one area can very clearly have effects in the other areas. Third, implementation of an all-inclusive, integrated and coordinated set of measures will further increase standards of responsibility and accountability throughout the institution that will make the Bank's corporate governance more efficient. Lastly, emphasizing the Bank's predictable and uniform responses to illicit behavior will strengthen the ethos of the institution and its credibility, as it supports the economic and social development of its borrowing member countries.

## II. Ensuring Integrity Within the Bank

2.1 The concerns shared by all of the Bank's shareholders with respect to fraud and corruption make it essential that the Bank continue to ensure that they will not be tolerated within the institution. Fraud and corruption can be disastrous for any organization. They can impede an institution from fulfilling its legitimate goals, threaten an institution's credibility and public image, and weaken shareholder support. It is essential for any institutional environment to ensure that integrity is maintained, that staff adheres to high standards of integrity, and that fraud and corruption are not condoned.

2.2 The Bank has the tools necessary to ensure that the institution accomplish these goals. The Bank's personnel policies provide guidance for the conduct of staff. The Code of Ethics lays out a code of behavior for the institution's staff and the procedures that are to be followed to

address allegations of unethical behavior. Pursuant to the Code, a permanent inter-departmental Bank committee, the Ethics Committee, is established to review any such allegations against Bank staff and to make certain that the provisions of the Code are uniformly respected in the institution. There is also a Respect in the Workplace policy that forms part of the Personnel Policies and that provides for a Committee, charged with the responsibility of confirming that the staff comply with the provisions of the policy. There is a mechanism for employee recourse, including the Ombudsman, the Conciliation Committee, and the Administrative Tribunal, so that any allegations of personnel policy violations are dealt with properly, respecting due process and principles of fairness. The Bank needs to ensure that the processes and procedures that are in place so that unlawful behavior is not tolerated within the institution are periodically reviewed and updated so as to be most effective and credible.

2.3 However, it is important to keep in mind that controlling the risk of corruption within the institution requires more than adequate norms, due process and fair, impartial decisions. An institution's procedures and codes of conduct are part of a larger system of incentives, rewards and sanctions that will produce staff conduct that reflects the values that the institution endorses. They are instrumental to the ethos of an institution and become irrelevant if the ethos disappears.

2.4 As a result of the periodic operational mandates agreed to by the Board of Governors for the institution, the Bank has substantially increased its operational and non-operational activities and its size. In addition, in 1994, the Bank underwent a major reorganization designed to more effectively deal with the institution's expanded role in the region. It is only natural that such major change in the scale and the scope of activities result in challenges to the cultural identity of the Bank and to a sense of belonging within the organization.

2.5 It is therefore critical that the Bank ensure not only that it has clear guidelines and procedures designed so that staff adhere to the highest level of integrity, but also that the institution's objectives, principles and values be constantly and credibly reinforced. Within this context, certain areas that could benefit from the Bank's activities in promoting integrity within the institution are addressed in the following sections.

## Conduct

2.6 The Bank's Code of Ethics and Personnel Policies remain the major instruments to delineate the proper conduct of all Bank staff. They are clear and unequivocal in laying out the parameters of behavior in dealing with official responsibilities and in dealing with other staff members in personal conduct. Nevertheless, they should be revised so that they clearly spell out the processes for dealing with any allegations of violating the conduct that is expected of staff and ensuring that due process is protected. It is also essential that a greater effort should be undertaken to ensure that all staff members, including consultants, be aware of the provisions of the Code and of the Policies. In addition, the possible applicability of ethics standards to members of the Board of the Executive Directors shall be analyzed within this context.

2.7 Management shall promptly undertake the task of reviewing the Bank's internal policies and procedures, including the Code of Ethics, the Personnel Policies, and the financial interests and conflicts of interest disclosure guidelines, to ensure that they are effective and relevant in

delineating norms of proper conduct and in dealing with the risks of fraud and corruption. These policies and procedures should be reissued and made available to all existing Bank staff members. Existing staff (including consultants) in headquarters and in the Country Offices shall be made aware of the contents of these policies and procedures through meetings with each Department or Office to be coordinated by the Office of the Vice President for Planning and Administration and including representatives of the Human Resources Department, the Office of the Auditor General, and the Legal Department. With respect to new staff, the Human Resources Department shall coordinate similar information meetings promptly upon staff reporting for work.

2.8 Existing procedures for submitting and investigating allegations of corrupt behavior will be reviewed and adjusted so as to ensure that they are effective mechanisms for such accusations to be submitted, with the accuser protected from any retaliation. Bank staff need to be aware of such mechanisms, the seriousness with which such investigations are undertaken and the procedures that are to be followed for submitting any accusations. A staff member submitting an accusation must know beforehand what processes he or she is triggering by an accusation and must be entitled to full protection and to a process that is both efficient and discrete. Most importantly, he or she must be able to expect that justice will be achieved and that equal standards for integrity apply in all circumstances.

2.9 It is important that the culture of the Bank ensure that its staff members are always aware that they have a responsibility as international civil servants to fulfill their work obligations in a professional and competent manner and to behave as good citizens in the country in which they live and work. The Bank's privileges and immunities cannot be used by staff members as a shield behind which to hide from fulfilling their personal and legal obligations as members of their respective communities.

2.10 The review of procedures for submitting allegations of corrupt behavior shall include the possibility of implementing mechanisms for the anonymous reporting of allegations of unlawful conduct with the purpose of initiating the necessary corresponding investigations. While such mechanisms may be viewed as an additional process for the institution to receive allegations of improper staff behavior, there is the risk that they may be used irresponsibly and contribute to the erosion of the fabric of mutual trust and respect among colleagues in a working environment.

2.11 Since better standards of ethical performance are also achieved by ensuring greater transparency in the disclosure of information, the guiding operating principle should be that the results of all completed investigations should be disclosed internally. In determining how to implement this principle, it is clear that such disclosure needs to ensure that any innocent parties or entities are not harmed.

#### Transparency in Recruitment and Promotion

2.12 The Bank is aware that the recruitment and promotion of staff must be transparent and always in accordance with the Bank's policies and procedures. The Agreement Establishing the Bank emphasizes the need for professional staff whose loyalty is exclusively to the institution and not subject to interference by any government. The recently approved Human Resources

Strategy, based on the provisions of the Charter, proposes a new regime for the recruitment of staff. Policies and procedures in the areas of recruitment and promotion are built on transparency, accountability and uniform application. All actions proposed in the present document are therefore compatible with this Strategy.

2.13 Adequate and timely information needs to be provided to potential candidates and to the departments, offices or divisions that are recruiting, and to staff members and supervisors that are involved in promotion exercises. The existing practice of posting all vacancies on the Bank's website is a good example, as are current efforts underway to publish all posting selection results. To ensure the transparency of the information on Bank contracting, particularly consultants, the Bank shall implement a centralized and standardized database that will register all basic information on: a) all contracts previously executed with the individual under consideration; b) the academic and professional qualifications of the particular individual; and c) all evaluations completed on previous work performed by the particular individual. The data will be kept up to date and will be made readily and easily available to those having a legitimate interest in the information.

2.14 It is also important that the same basic contracting criteria be shared throughout the institution, albeit with due regard for country-specific factors in the Country Offices. The establishment of common norms in the recruitment process, in the formulation of terms of employment, and in the evaluation of the work performed, is important particularly where recruitment has been decentralized, such being the case for the contracting of consultants. The Bank should review and update the policies and procedures and the corresponding model contracts and forms utilized for recruitment of all staff, including consultants. Necessary training and information will be provided to staff at headquarters and in the Country Offices that are involved in the process of recruitment, including the hiring of consultants. An evaluation process based on objective indicators of performance for consultants will also be put in place and systematized. Evaluation results will be promptly fed to the centralized database mentioned above.

2.15 Lastly, it is important that there be mechanisms to ensure accountability in the recruitment and promotion process. It is important that the hiring departments can rely on a centralized information system that includes credible performance evaluation mechanisms referred to above. Operational auditing will include contracting of consultants at Headquarters and at the Country Offices.

#### Internal Procurement of Goods and Services

2.16 Ensuring the transparency of the process for procurement of goods and services within the Bank is as critical as ensuring the transparency of the procurement of goods and services with the proceeds of Bank loans. The Bank's internal procurement process is governed by its Procurement Manual and the policies and procedures contained in the institution's Administration Manual.

2.17 Management shall review and update the existing policies and procedures, including the current Procurement Manual, so that they serve as effective tools to maintain transparency and

accountability in the procurement process. The procedures for preparing technical specifications for internal procurement need to be strengthened. A clear mechanism for companies submitting bids to protest and appeal the procurement procedure or the awarding of a contract should be implemented; the procurement process and the appeals mechanisms will receive broader publicity. Lastly, the internal contracting of goods and services will be audited on a regular basis.

### III. Ensuring that Activities Financed by the Bank are Free of Corruption

3.1 The Bank's member countries, particularly borrowing member countries that have achieved fiscal stability and democratic rule, are concerned about the effective use and the real impact of external financial aid. Since corruption is a major restriction to the sound and efficient allocation of internal or external financial resources, the urgent need expressed by member countries to highlight and address the issue of corruption within the context of the Bank's lending activities is timely. Therefore, whenever corruption arises as an issue, either during the discussion of a country strategy with the governments during Programming Missions, or when determining priorities or specific projects, it is appropriate that it be addressed frankly and openly.

3.2 It is important to ensure the existence of a proper control environment at the Bank for its operational activities. Tighter controls for the allocation of the Bank's resources have already been put in place as a result of the Bank's increased lending capacity and expanding lending program. These practices need to be further integrated and more widely shared. Also, concern for the safe allocation of resources in the framework of project impact should be a common theme incorporated into all phases in the life of Bank's projects, from the stages of identification and design of an operation, through its execution, and finally during its evaluation. Indeed, preventive controls for potential risks of corruption should be carefully and consistently distributed along all of these stages of every project.

3.3 To ensure that allegations of fraud or corruption in activities financed by the Bank are brought to Management's attention promptly and dealt with effectively, the Bank shall ascertain that its procedures to receive and investigate such allegations are clearly spelled out and available to the public.

#### The Role of Country Papers

3.4 The Country Paper provides the Bank with all information on a country in which it will be conducting business and indicates the landscape of development needs and opportunities for Bank actions. As such, it is the major operative guideline for the Bank's action and serves as the focus for the discussion on the Bank's activities. In describing the context for future lines of action, the Country Paper addresses all aspects of the development climate in the country. The Country Paper should explicitly address the issue of governance within the country. To this effect, the development of state of the art tools for good governance assessment will be encouraged. Corruption will be addressed in the Country Paper if the country and the Bank find it to be a restriction to economic and social development or to the impact of a Bank lending program in a particular country. Management shall propose to the Board of Executive Directors

the necessary revisions to the Bank's Information Disclosure Policy regarding public disclosure of Country Papers.

### Project Identification and Design Phases

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

3.6 Preventive controls in Bank projects must be up-streamed to the beginning of the project cycle. At the stage of considering potential projects, evidence of corruption may result in a decision not to proceed with an operation or to structure it in such a manner that concerns will be credibly addressed during the project cycle. The basis for project identification will also be made more transparent. A sound judgment on the risks of corruption in connection with the success and the benefits of an operation is to be expected at the initiation of every new program and should follow through to its completion.

3.7 Within an overall strategy to increase the quality of project design, a prospective view of how a project will develop should be encouraged at this stage; most red flags will have to be identified at this time. Increasing the quality of the Bank's risk analysis is therefore crucial. Tools for assessing project risk and corruption possibilities shall be refined and increasingly utilized. Ways for enhancing risk evaluation within the Regional Operational Departments and the possibility of centralizing this function in specific units within departments will be analyzed. Training on risk assessment and on prevention of corruption for project team members is necessary. Presently, there are pilot initiatives underway for further collaboration with the World Bank in fiduciary assessments in borrowing member countries, in particular within the area of public procurement and financial management. Vulnerabilities at the project design phase should be considered in, *inter alia*, the selection of an executing agency; the administration and monitoring of a project; the procurement to be undertaken with loan proceeds; the implementation of operative and financial auditing; and the project or program evaluation to be performed at the end of the operation.

3.8 Corruption is an obvious by-product of institutional inefficiency and should therefore be detected through adequate institutional analysis. Such institutional analysis is an important element in the Bank's operational analysis activity. The Bank will strengthen its capacity for institutional analysis or will support outsourcing it when necessary. Whenever government agencies are deemed to lack institutional capacity for managing a Bank program, alternatives in project execution responsibility will be analyzed. Current Bank best practices along this line will be shared further among the Regional Departments.

3.9 Previous successful practices for avoiding corruption have involved autonomous entities such as financial institutions, NGOs, or CSOs such as academic institutions and the Church, bearing partial or total responsibility for project execution and/or monitoring.

PROJECT MONITORING BY ACADEMIC INSTITUTION

Colombia

As a response to an increase in the number of complex, decentralized projects approved in Colombia since 1995, the Bank has financed and promoted an innovative structure involving local universities to support project monitoring and evaluation. The idea for such a mechanism came about during the preparation of the Social Solidarity Network (SSN) loan, approved in 1995. This highly visible program consolidating 14 separate social programs under one umbrella institution was designed to reach the nation's poorest population in over 1,000 municipalities. The staff of the SSN was concerned about lack of transparency in the selection of beneficiaries and possibilities of corruption and interested in receiving regular feedback on the innovative implementation structure that had been designed. The structure that was designed jointly by the SSN, the Universidad de los Andes and the Bank was known as REUNIRSE. REUNIRSE involved six first rate universities from around the country and around 150-200 students finishing their undergraduate degrees participating in a program known as Opción Colombia. The university students spent a semester living in municipalities throughout Colombia accompanying all aspects of the workings of the SSN in one or several towns. They shared the information generated with the regional university faculty and researchers and all of this data was eventually forwarded to the Universidad de los Andes, which had a coordination function. Based on the Bank's experience with REUNIRSE, a similar structure was created for the Alternative Development Program, concentrated in the country's illicit drug growing regions, the Peaceful Coexistence programs in three major cities, and the Reconstruction of the Eje Cafetero. In the final program, the government was especially interested in the mechanism as huge sums were to be directed during a short period toward reconstruction of a region that had suffered the affects of a major earthquake. To avoid corruption in the administration of reconstruction resources, the Universidad de los Andes was hired to transfer know-how to two universities from the affected region, which would be responsible for the monitoring and evaluation.

3.10 The capacity of the executing agencies for procurement of goods and services related to Bank projects, their internal control environment, as well as their ability to comply with adequate accounting standards, will also be more rigorously assessed at the design phase. Accordingly, wherever necessary project teams will be reinforced with the capability of performing such evaluations or otherwise trained to acquire the necessary expertise early on in the process. The incorporation of expertise in procurement, internal controls and accounting matters will further enhance the team's ability to foresee and secure the framework for the procurement and auditing processes that are included in the project and to prepare a more detailed execution program in these particularly sensitive areas. Experience on external concurrent auditing, outsourcing procurement processes and other ad-hoc preventive control mechanisms should be routinely shared within the regions and utilized whenever similar circumstances entailing risk are detected.

3.11 The Bank's own ability to monitor, audit and evaluate projects and programs shall also be taken into account during this phase of the project identification process. When crafting large decentralized projects, projects in new lending areas (e.g., state reform, private sector and privatization processes) or social programs, the Bank's project teams should note that traditional monitoring and evaluating instruments, practices and mechanisms may no longer provide the necessary safeguards against corruption. Other provisions specific for different types of operations will have to be incorporated at very early stages to ensure satisfactory standards in all three activities in all types of projects.

Project Execution Phase

3.12 The Bank's standards of integrity in its operations result primarily from well-defined and ongoing project supervision and monitoring activities performed by the Country Offices and a

permanent review of the Bank's procurement, disbursement and external auditing requirements. The Office of the Auditor General is also currently proposing alternative control systems for new types of projects that cannot be adequately audited with the systems presently in place.

3.13 The monitoring processes and oversight mechanisms shall continue to be reviewed and adjusted, as necessary, so as to maximize efficiency, integrity and transparency. The Bank's Country Offices remain a valuable mechanism to ensure proper execution of the Bank's operations; it is essential that proper policies and guidelines for their monitoring activities exist and that their staffs are trained to assess the potential for fraud and corruption at the design stage and then to detect either during project execution. Guidelines for improved monitoring will be provided and reporting on the efficiency of current control mechanisms will be encouraged. The methodology for carrying out ex-post checks on projects needs to be evaluated and implemented in a consistent manner in all of the Country Offices.

3.14 Whenever there is strong reason to believe that corruption may be obstructing project execution or that successful execution of a project's objectives cannot be met, suspension of disbursements or cancellation of an operation shall always remain an option, as specified in the Bank's loan contracts. Such a situation may imply major failures in the design and implementation of the above mentioned preventive safeguards that, in principle, may not necessarily be imputed to the borrowing entity or country. The Bank should therefore upstream its safeguards in such a way that corruption will not result in slow or aborted project execution.

3.15 Strict adherence to the Bank's procurement policies and guidelines has contributed to minimizing corruption during project execution. The participation of the Country Offices in ensuring a transparent procurement process and the existence of a clear mechanism for appealing any procurement process and contract award to a Procurement Committee, have effectively ensured that Bank procurement minimizes the risks of corruption. Further action will be undertaken to ensure transparency in the disclosure of information related to procurement within Bank projects. This shall include posting timely and comprehensive information on procurement opportunities, contract awards and contract execution on the Bank's website.

3.16 Some sensitive issues in this area must still be addressed, such as the appropriate extent of sanctions for firms having committed fraud and corruption. Further discussion and analysis of these matters is required. The right to audit contracting firms participating in Bank's operations is a useful tool for protecting the projects from corruption that should be further utilized and coordinated with other multilateral development banks. Finally, existing and new staff at headquarters and in the country offices that are involved in the operational process should receive periodic training in these areas. The decisions of the Procurement Committee need to be made public in a timely manner.

#### Project Evaluation Phase

3.17 It is clear that the evaluation of the Bank's activities is one of the key elements to determine whether corruption was a factor in the respective operation. Each Regional Operational Department and the newly structured Office of Evaluation play key roles in this area. Current policies, procedures, evaluation methodologies and practices, including project

completion reports, need to be analyzed to ensure that they are capable of addressing the questions of whether or not operations were properly designed and executed and whether or not corrupt practices may have been present.

3.18 The Office of Evaluation shall incorporate the evaluation of the Bank's compliance with its anti-corruption mandates in its program of activities. Evaluation reports need to be broadly disseminated and used to provide lessons learned in the process for preparing new operations. Proper training for personnel at headquarters and at the Country Offices will be provided in support of the aforementioned measures.

#### IV. Supporting Countries Combat Corruption

4.1 Within countries in our region, there have been fundamental changes in the way both the government and the citizenry are addressing corruption. The fact that the topic ranks high in the social and political agendas of the region does not necessarily mean that corruption is rampant; it does reflect a new intolerance by the population for corrupt behavior and an effort by the state to ensure that the financial reforms and moves to democratic processes of the last decade are preserved.

4.2 The Bank is increasingly asked to support borrowing member countries in their efforts to attack corruption, primarily through the institution's activities in governance and modernization of the state. The Bank's institutional strategy explicitly refers to the modernization of the state and to competitiveness as priority areas of the Bank for continued action in the future. Our region is the only region of the world whose leaders have issued explicit mandates to combat corruption on a regional basis; the Bank has been specifically charged to take additional action to fund programs that support transparency and good governance and responsible participation by civil society.

4.3 As a result of its member countries' commitment to address these issues and as expressed in the mandates given to the Bank, the institution has contributed in minimizing opportunities for corruption when supporting reforms that consolidate an effective, transparent and accountable public sector. Initiatives that reinforce checks and balances within systems of democratic rule of law have been critical, and include strengthening parliaments and justice systems, including the offices of Attorney Generals. A politically independent judiciary comprised of technically competent magistrates, prosecutors and officials is deemed essential for ensuring the existence of the rule of law. The Bank has also been active in such public sector fields as financial management at all levels of government, tax reform, customs services and reform of public procurement regimes, and in building capacity for more efficient controls by the offices of supreme auditing institutions, such as the offices of Controllers. Projects have supported public regulatory agencies, consumer protection agencies, and the offices of ombudsmen. The Bank has also ensured transparent privatization processes; encouraged the implementation of international accounting and auditing standards; facilitated further control by civil society in grass-roots projects and in the delivery of public services; and supported transparency in business transactions. The Bank reiterates its commitment to activities designed to consolidate the rule of law and good governance in the region. These lines of action shall continue and be strengthened.

#### SUPPORT TO SUPREME AUDIT INSTITUTIONS

##### Colombia

The principal objective of the program to strengthen the Controller's Office and the Auditor General's Office of Colombia is to improve governance by supporting the national system of fiscal control. The program will provide assistance in the central and regional offices by institutional strengthening and support of its functions and strengthening the national system of fiscal controls. The audit function as well as the ability to analyze balance sheets and prepare fiscal statistics will be supported. The program is designed so as to permit civil society to have mechanisms to submit allegations of fraudulent use of public resources to provide social controls in the execution of projects and to participate in the review of the states activities.

#### SUPPORT TO THE LEGISLATIVE BRANCH OF GOVERNMENT

##### Brazil

The INTERLEGIS program of Brazil is designed so as to ensure that the legislative branches at the federal, state and municipal levels are connected electronically to share experiences and information, bring some common approaches to the legislative process, serve as an additional mechanism for the education of legislators, and provide the citizenry with real time information on the activities of the respective legislative bodies.

4.4 In addition, in the light of its borrowers' needs, the opportunities for the Bank to address corruption more directly in its lending programs has been increased. Within the public sector framework, the Bank must address corruption when intervening at decentralized levels of government, when dealing with privatization processes, and in its many social programs. Within the private sector, the Bank can take a more active role in supporting corporate codes of conduct, corporate governance frameworks and transparent pacts of integrity. The boundaries for attacking the issue of corruption have expanded over the years, although the basic thrust of the Bank's activities shall continue to reflect the position that corruption is a governance issue that can be approached through different lines of work within different contexts. To such ends, whenever the Bank and its borrowers consider that corruption will be a restriction to the achievement of the goals set forth in a project or program in any given sector, specific components for deterring corruption will be incorporated into the funding operation.

4.5 New areas of activity will become priorities in order to help the borrowing member countries secure the benefits of their efforts in modernizing the state, in adjusting their economies and in preventing corruption. Some examples will illustrate this point. First, comprehensive civil service reform is still pending in most of the countries in the region. In the past decades, civil service reform has been addressed either in the context of public sector downsizing or of selective strengthening of specific government agencies. Many countries are now interested in implementing a professional civil service, appropriately compensated with clear guidelines for advancement made on merit. Second, a more proactive approach to incorporating and applying modern communication and information technology in public sector management is crucial for providing more efficient public services and for enhancing transparency and accountability. Third, since public procurement remains one of the major sources of public expenditure and of potential large-scale corruption, it is essential that appropriate legal frameworks, modern and efficient electronic procurement systems, and

institutional strengthening and training for public sector procurement be encouraged throughout the region. Fourth, compliance on the part of the countries with international accounting standards in public sector management would enhance overall transparency and also attract external aid and investment. The Bank should further strengthen its expertise when necessary in these particular fields and shall be more proactive in helping the countries analyze and address these issues. Finally, within the financial sector, the Bank supports the efforts of banking supervisory and regulatory entities to combat money laundering and financial crimes. The Bank's expanding activities in funding banking supervisory organs, both on a national and sub-regional basis, should include components for supporting training in these areas.

#### SUPPORTING ANTI-MONEY LAUNDERING TRAINING ACTIVITIES

Regional Technical Cooperation with the Inter-American Drug Abuse Control Commission (CICAD) of the Organization of American States

This technical cooperation supports a regional pilot program to train banking regulators and employees of regulated banks in money laundering and financial crime detection techniques. The program was carried out in five countries of the region, including Colombia, Chile, Uruguay, Argentina, and Peru.

4.6 Borrowing member countries may also seek support from the Bank to assist them in developing specific anti-corruption initiatives and programs. These may range from the development and implementation of credible national anti-corruption programs and strategies to efforts to eliminate corruption in a specific sector. Such requests may also come from sub-regional groupings of member countries that seek a multinational approach to addressing the issue. On a case by case basis, the Bank shall assist such countries or sub-regional groups in their efforts. For such purposes the Bank can provide financial and non-financial support.

4.7 The private sector and civil society also contribute to shape government action and public servants' behavior. Bribery is a crime because it directs government action towards private individual gain rather than towards the public good. The private sector and civil society can direct their relationship with the public sector in ways that enhance the integrity, efficiency and quality of public action. It is in the interest of the countries that responsible relationships based on integrity exist among all three parties so as to ensure democratic and transparent governance structures. In the activities of the private sector in particular, the Bank will encourage proper corporate governance in the entities that it deals with, including the implementation of codes of conduct. The Bank should continue to support a more proactive intervention on the part of civil society and of the private sector in public affairs and a more efficient alliance in dealing with public issues.

4.8 In an increasingly integrated international environment where the consequences of unlawful behavior extend well beyond national boundaries supranational regulations and standards serve to guide activity and regulate behavior. The Bank shall help its borrowing member countries to harmonize their domestic legislation with the international legal instruments that they have approved, such as the Inter-American Convention Against Corruption.

4.9 It is also important for the Bank to participate actively in the international dialogue and cooperative effort that have arisen in the fight against corruption. The Bank has been present as an observer or presenter in fora, panels, seminars and conferences in Europe, Latin America, the

Caribbean and the United States that deal with corruption. Such activities have been organized by the Bank itself, by other multilateral entities, by national governments and by representatives of civil society. These activities serve as an opportunity for the Bank to learn more about the needs of its borrowing member countries in this area; to contribute to the international dialogue on corruption, in conjunction with the Organization of American States, from the unique perspective of the Latin America and Caribbean region; and to share best practices from other regions and institutions with its member countries. In addition, it has engaged in joint activities with other institutions to support regional and national efforts in combating corruption.

## V. Conclusions

5.1 The Bank's member countries share a deep concern regarding the negative impact of corruption on development and on the risk that it poses to the Bank's allocation of resources and to its corporate culture. It is therefore timely and appropriate for the institution to articulate a comprehensive and systemic approach to combat corruption on all of these fronts, taking into account the needs of the Latin American and Caribbean region.

5.2 A simultaneous systemic effort will be undertaken to (a) ensure that Bank staff act in accordance with the highest level of integrity and that the institution's internal policies and procedures are committed to this goal; (b) minimize the risk of corruption in the allocation, commitment and disbursement of the Bank's resources in its lending program and ensure that Bank operations are designed so as to be executed with transparency and within the framework of a proper control environment; and (c) support the borrowing member countries in their programs to improve governance, affirm the rule of law and combat corruption.

5.3 At the internal level, overall transparency of information will be enhanced; upgraded systems of incentives and sanctions will be put in place and adequate, simple and clear regulations will be publicized and implemented in order to strengthen integrity as a key feature of the Bank's culture.

5.4 To secure the allocation of Bank's resources, the issues of corruption and governance will be openly discussed with the member countries when spelling out the Bank's strategy and program in the countries and subsequently, action for minimizing the risk of corruption will be taken throughout the project cycle. The Bank should build its safeguards around sound and transparent decision making, quality in project design, responsible oversight and scrupulous evaluation since strong preventive action is the most efficient instrument to safe financing.

5.5 When supporting countries confront corruption the Bank is implementing clear political mandates from all of its member countries. The Bank will continue to support the countries' efforts towards more responsible, efficient and professional public action and also to address the corruption problem in projects other than those related to state reform in the understanding that corruption is a restriction to good governance *latu sensu*, where private sector corporate governance or mature involvement of civil society in governance also contribute to materializing public interest.

5.6 An explicit commitment on the part of the Bank to ensure integrity in the conduct of its operations in the region and to assist the governments of its borrowing member countries in their efforts to consolidate the rule of law and to function with efficiency, transparency and accountability, will be an important contribution to the social and economic development of the region at the start of the new millennium.