

**Classification:** Public Document  
**Original Version:** English



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## ABSTRACT

This report reviews the implementation of the measures the Inter-American Development Bank (IDB or Bank) has taken in the three strategic pillars of the anticorruption agenda: (i) strengthen the prevention of fraud and corruption in Bank operations; (ii) support transparency and anticorruption efforts in the Region; and (iii) ensure high ethical standards for Bank staff.

The Bank has taken several actions in the first and third pillars. To help prevent corruption, the IDB has eliminated the overlap of policy and investigations by creating an Anticorruption Policy Committee and giving more independence to the Office of Institutional Integrity, and by establishing a new sanctions structure with greater clarity and stronger accountability. In addition, the 2011 cross-debarment agreement with other multilateral development banks has enhanced the impact of sanctions the IDB may impose. To help ensure internal integrity, the Bank has revised its Code of Ethics and whistleblower policy, improved the enforcement capacity of the Ethics Office, streamlined accountability relationships, and taken various other actions to bring the system up to good international practice. The second pillar, however—even recognizing that most Bank interventions to improve public management and strengthen institutions can have a positive impact on governance and anticorruption—has received limited recognition and support, partly as the result of crowding out by other development priorities and of limited country demand.

In preventing corruption in Bank projects and in fostering staff integrity, the new structure is a major improvement over the one built piecemeal in previous years. This report advances various suggestions, of which the most important is for an external review of the Bank staff rules, particularly to sharpen managers' authority and accountability for ensuring a respectful workplace environment. In these two pillars, however, the priority is to consolidate the sound organizational and institutional changes that have been made. For the second pillar, enhancing governance and anticorruption efforts in member countries will require more assertive Bank support from the top, the assignment of greater priority and resources to programs to foster transparency and accountability, and closer intersectoral coordination.

## PREFACE

The Inter-American Development Bank (IDB) is in a period of rapid change, responding to both the economic dynamism of the Region it serves and the increasing competition in the international financial marketplace. Over the past decade, countries in Latin America and the Caribbean have gained greater access to alternative sources of finance and an increasingly ability to generate and share knowledge among themselves. Like other multilateral development banks, IDB is seeking to adapt to this changing international landscape by ensuring that it is responsive to borrowing countries' needs and putting strong emphasis on effectiveness in its use of scarce resources.

In 2010 the IDB's Board of Governors approved the 9<sup>th</sup> General Capital Increase of the IDB (IDB-9). The IDB-9 Agreement laid out a series of reforms intended to strengthen the strategic focus, development effectiveness, and efficiency of the IDB to help it remain competitive and relevant in the years ahead. As part of that Report, IDB's Office of Evaluation and Oversight (OVE) was charged with conducting a midterm evaluation—to be presented to the Board of Governors in March 2013—to assess IDB's progress in implementing those reforms. The full evaluation is available at [www.iadb.org/evaluation](http://www.iadb.org/evaluation).

This paper is one of 22 background papers prepared by OVE as input to the IDB-9 evaluation. It seeks to determine whether one portion of the IDB-9 requirements has been implemented fully and effectively and to offer suggestions to strengthen implementation going forward. The overarching goal of this paper and the entire evaluation is to provide insights to the Governors, the Board, and IDB Management to help make IDB as strong and effective as possible in promoting economic growth and poverty reduction in Latin America and the Caribbean.

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This background paper was prepared by S. Schiavo-Campo, Laura Atuesta, and Agustina Schijman, under the guidance of Cheryl Gray. Annex B on the Extractive Industries Transparency Initiative was prepared by Andres Liebenthal. All background papers were thoroughly reviewed and discussed within OVE and shared with IDB management for comments. The other background papers and full IDB-9 evaluation can be found at [www.iadb.org/evaluation](http://www.iadb.org/evaluation).

## ABBREVIATIONS AND ACRONYMS

|       |   |
|-------|---|
| ADB   | Asian Development Bank  |
| AfDB  | African Development Bank  |
| ACPC  | Anti-Corruption Policy Committee  |
| CPI   | Corruption Perception Index (Transparency International)  |
| EITI  | Extractive Industries Transparency Initiative   |
| FMM   | Fiscal and Municipal Management division  |
| FMP   | Financial Management and Procurement division   |
| ICS   | Institutional Capacity of the State division  |
| IDB   | Inter-American Development Bank   |
| IFD   | Institutions for Development department   |
| MDB   | Multilateral development bank   |
| NSG   | Non-sovereign guarantee operations  |
| OCFC  | Oversight Committee on Fraud and Corruption   |
| OII   | Office of Institutional Integrity   |
| PAACT | Action Plan to Support Countries in Their Efforts to Fight Corruption and Foster Transparency (Spanish acronym) |
| SPD   | Office of Strategic Planning and Development Effectiveness  |
| T&A   | Transparency and accountability   |

## EXECUTIVE SUMMARY

### **Background and the IDB-9 Commitments**

This report reviews the progress of implementation of the commitments to strengthen the activities of the Inter-American Development Bank (IDB or Bank) to combat fraud and corruption, comments on the likelihood of positive impact, identifies major emerging issues, and advances a number of suggestions. The three strategic pillars of the IDB anticorruption agenda (which are similar to those of the other multilateral development banks) are to (i) protect Bank-financed activities from fraud and corruption; (ii) support member countries in strengthening good governance and combating corruption; and (iii) ensure the highest level of staff integrity. In 2008, an external report commissioned by the Bank to review its entire framework and related activities (the “Thornburgh Report”) concluded that the Bank’s activities had had a positive effect, but were ad hoc. The report recommended better coordination and expansion of the effort to help countries move toward good governance and public integrity. The IDB-9 committed the Bank to implementing the recommendations of the 2008 review, to “maintain a leadership position on the issue of combating fraud and corruption, by:

- Improving the capacity to assure that Bank-financed activities are free of fraud and corruption, by modifications of the oversight, investigations and sanctions bodies.
- Developing and implementing strategic plans for effective treatment of fraud and corruption and to support transparency and anticorruption efforts in the region.
- Carrying out reforms related to integrity standards for Bank staff, including creating the Ethics Office, a new Code of Ethics, Bank-wide training, and financial disclosure.”

In 2009 an action plan (PAACT) identified the major implications of the 2008 recommendations and proposed activities to address them. A review of the ethics framework was completed in 2011, and another action plan was formulated to implement the recommendations of that review.

### **Implementation progress and main findings**

#### ***Policy and Guidance: The Anticorruption Policy Committee***

A critically important change strengthened both the substance and the perception of investigative independence by separating policy from individual investigations. The Oversight Committee on Fraud and Corruption, created in 2001 to receive allegations and oversee investigations, was replaced in 2010 by the Anti-Corruption Policy Committee, composed of the most senior managers at the Bank and charged with developing policy and exercising general surveillance, but without involvement in individual investigations.

### ***The first pillar: Preventing fraud and corruption in Bank-financed activities***

Implementation under the first pillar of the strategy included a large number of actions, of which the following are the most important:

- In 2010, the Office of Institutional Integrity (OII) became an independent office.
- The Sanctions Case Officer position was created and a Case Officer appointed in 2011.
- The Sanctions Committee was created as an appellate body for sanctions recommendations, with expanded membership.
- A cross-debarment agreement with the other multilateral development banks (MDBs) became effective in April 2011.

Under the new structure, the sanctions system includes the OII, the Sanctions Systems Case Officer, and the Sanctions Committee, with clear mandates and relationships. The OII's primary responsibility is to investigate information about "prohibited practices" in Bank Group-financed activities—corruption, fraud, coercion, collusion, and obstruction.<sup>1</sup> On the basis of the results of an OII investigation, the Case Officer determines whether a sanction is warranted and, if it is, notifies the respondent, who has the opportunity to appeal to the Sanctions Committee.<sup>2</sup> As a result of the cross-debarment agreement, when the sanction becomes final, it is recognized by the other four MDBs – the strongest single tool in the anticorruption arsenal.

An effort to revitalize the OII began in late 2009: clear procedures were adopted (although some gaps remained), staff was added, and the backlog of cases was sharply reduced. In addition, the quality of investigations has reportedly improved.

### ***The second pillar: Supporting countries' efforts to improve governance and integrity***

The PAACT assigned to the Institutional Capacity of the State (ICS) division the mandate to support good governance and institutional capacity building, including anticorruption projects, in member countries. The Bank also approved (in March 2011) a Strategy for Institutions for Growth and Social Welfare, which includes sections on public sector management and anticorruption. A related measure, which is critical for improving public financial accountability and fiscal effectiveness, was the consolidation in late 2011 of all operations in public financial management, including both revenue and expenditure sides, into the Fiscal and Municipal Management division, thus unifying responsibility for this inherently integrated agenda.

The PAACT outlined broadly sound directions for a more effective effort to improve governance and public integrity in member countries. While some of the recommended

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<sup>1</sup> Since 2011, the OII no longer investigates any allegation of staff misconduct. The OII also carries out important prevention activities, including the Red Flags system to identify and mitigate potential corruption risks in projects.

<sup>2</sup> If the Case Officer does not believe that the investigation has established a preponderance of evidence, it returns the case to the OII, after consulting the Chair of the Sanctions Committee.

activities were aspirational, others were relevant and actionable; but, with few exceptions, they have not been implemented so far. However, one of the directions proposed by the PAACT was adopted through the ICS “targeted transparency” approach to governance and anticorruption. This is a sound and realistic approach that is focused mainly on extractive industries but also supports a variety of country-specific activities in other sectors. Overall, even taking into account that most other Bank-funded operations to strengthen public sector management can have a major anticorruption impact, the resources devoted directly to “transparency and accountability” have been meager.

### ***The third pillar: Fostering staff Integrity***

The Code of Ethics, originally promulgated in 1976, was substantially revised in 2006. In 2007 it was merged with the previously separate code of staff conduct into a Code of Ethics and Professional Conduct, bringing many types of misconduct under the jurisdiction of the new Ethics Office. The revision of the Code mandated in the IDB-9 commitments was approved by the President in October 2012. The revised Code is broadly consistent with good practice, with better definition of procedures and clarification of the rights and responsibilities of the individuals, and it is presented in a more accessible format. A new whistleblower policy was also approved.

An external review of the Bank’s entire ethics and conduct framework was completed in May 2011. Most of the recommendations were accepted, and an action plan to implement them was formulated. As of November 2012, all the recommendations the Action Plan allocated to Management for implementation have been implemented and the remaining ones are on track for implementation on the established schedule.

At first the Ethics Office had to rely on the OII for investigating allegations of staff misconduct but, as a result of improvements made since 2009, it now has the capacity to conduct its own investigations, although it remains responsible for a high number of alleged violations of “respect in the workplace”—an inherently ambiguous category that is included in the Code but is very difficult to adjudicate. This issue, among others, brings to the surface the need for complementary actions to modernize the Bank’s personnel management procedures, particularly concerning the accountability and authority of line managers.

### **General conclusions**

As late as 2007, the Bank did not even publish the names of firms and individuals that had engaged in fraud and corruption, and the offices responsible for investigating allegations about such activities suffered from severe lack of capacity, ambiguity of mandate, and insufficient support. During the last three years, in response to the IDB-9 commitments, the Bank has acted to strengthen the anticorruption framework, albeit more in areas resting within the Bank’s own authority (protect Bank resources and foster internal integrity). In those areas, the current situation represents a substantial improvement over the opaque and weak arrangements of earlier years.

Initial implementation of the commitments in the *first pillar* of the anticorruption agenda has been satisfactory, and greater clarity of mandates, structures, and processes has been achieved—although only the actual functioning of the new system will provide evidence of its effectiveness. In this respect, it is urgent to provide for permanent leadership of OII. It is also important to communicate the reforms both internally and externally, not only to support the good operation of the new system but also to enhance the Bank’s image.

The *second pillar* has enjoyed only limited recognition and support—in part as the result of some crowding out by other priorities (including those identified in IDB-9 with corresponding lending targets), and of limited demand from client countries. A significant indirect impact on corruption can be expected from the various Bank operations to strengthen public sector management and from the “targeted” approach to transparency and accountability. However, the various Bank activities relevant to supporting countries’ efforts to improve governance and combat corruption have not been sufficiently coordinated across sectors, and the “transparency and accountability” program has had limited resources.

Concerning the *third pillar*, beyond the positive changes that have been made in the ethics framework, there is a need for clarity on the disciplinary powers of managers, attention to their interpersonal skills, and support for improving those skills. Lacking effective channels for addressing staff complaints and support for managers’ people-skills and disciplinary decisions, *both* staff and managers are led to pursuing their grievances through informal channels and personal networks. The new mediation system, to become effective in April 2013, should help address grievances in a more structured and efficient manner, though complementary changes in personnel policies and procedures will be necessary.

The priority for the future, in the first and third pillars, is to consolidate the actions taken. Prospects for such consolidation and for their eventual positive impact appear good if the attention and efforts of the last three years are continued.

### **Emerging issues and suggestions going forward**

For the *first pillar*, several actions appear important. As soon as possible, appoint a permanent head of OII, using new and detailed terms of references; formulate an explicit protocol for informal settlement of cases of prohibited practices, in consultation among the concerned units; consolidate into the Sanctions Committee the responsibility (and requisite resources) for receipt, dissemination, and posting of sanctions on the Bank website; and formulate modalities to draw a clear boundary between OII investigations and prevention activities, to ensure the independence and credibility of the investigations.

The *second pillar* calls for stronger support from the top and closer multisectoral coordination than has been the case in the past. Among possible steps, the Bank should consider increasing the priority and resources devoted to transparency and accountability initiatives, consistent with experience and country demands; devise ways to quantify the overall anticorruption effort by the Bank (beyond the ICS and FMM activities) and track

changes; and strengthen the mechanisms for exchange of experiences and cross-fertilization of ideas among staff, including in sectors.

For the *third pillar*, the effective functioning of the new organizational structure would be facilitated if the Ethics Office were no longer required to receive allegations of “disrespect in the workplace” (which should reasonably be resolved directly by supervisors or through the Human Resources Department, the Ombudsperson, and/or the new mediation system). Also, a fresh survey of staff attitudes on ethics, at an appropriate time, would be very useful to assess changes from 2009 and ascertain staff views on the IDB-9 reforms that have been enacted, including the effectiveness of training. Most importantly, complementary measures are needed to modernize certain aspects of personnel management. For this purpose, following the precedent of the 2008 review of anticorruption and the 2011 review of the ethics framework, the Bank should consider commissioning an external review of the regulatory framework for personnel management. Such a review, in addition to updating the old rule on staff conduct, would address the system of annual performance evaluation of managers, with a view to introducing into it a systematic element of upward feedback (i.e., confidential evaluation of managers by all their direct subordinates).

## I. INTRODUCTION

### A. Background and context

- 1.1. For almost two decades the international community has recognized the harmful impact of corruption on development and aid effectiveness. In 1995 President Enrique V. Iglesias of the Inter-American Development Bank (IDB, or Bank) anticipated by a year the concerns expressed in the better-known “Cancer of Corruption” speech by World Bank President James Wolfensohn. Five years later, however, Quick (2000) noted that the IDB’s concerns were only beginning to evolve from a narrow focus on corruption in procurement to a broader perspective on governance and corruption. At that time, as an article by the World Bank General Counsel (Shihata, 2000) demonstrated, the IDB was still far behind the World Bank and the Asian Development Bank (ADB), which had adopted formal anticorruption policies in September 1997 and July 1998, respectively.<sup>3</sup>
- 1.2. In a short time, the situation began to change. In 2001 the IDB adopted the “Systematic Framework Against Corruption,” built around three strategic pillars that were similar to those adopted by the World Bank and the ADB: (i) ensure that activities financed by the Bank are free of fraud and corruption and are executed in a proper control environment; (ii) support programs that help the borrowing member countries of the Bank strengthen good governance, enforce the rule of law, and combat corruption; and (iii) ensure 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.<sup>4</sup> At the same time the IDB created the Oversight Committee on Fraud and Corruption (OCFC), and two years later it established the Office of Institutional Integrity (OII). Those initial steps raised internal awareness and signaled to external stakeholders how seriously the Bank intended to address fraud and corruption issues.
- 1.3. In 2007 the IDB commissioned an external review of its anticorruption framework and activities, which produced the following main findings:<sup>5</sup>
  - The Bank’s efforts had had a positive effect, particularly through collaboration with the Organization of American States.

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<sup>3</sup> The African Development Bank (AfDB) was lagging in this respect, and only in 2006 did it create a unit to investigate allegations of fraud and corruption in AfDB-financed projects.

<sup>4</sup> “Strengthening a Systemic Framework Against Corruption for the Inter-American Development Bank” (GN-2117-2).

<sup>5</sup> “Report Concerning the Anti-Corruption Framework of the Inter-American Development Bank” (also known as the “Thornburg Report”), November 2008 (GN-2440-I). In parallel, the sanctions framework was being strengthened. In August 2009 the Audit Committee agreed that changes to the OCFC proposed in the plan should be accompanied by an integrated package of reforms that would include changes in the Sanctions Committee and establishment of OII as a separate unit (GN-2440-6).

- The Bank had encouraged good governance through several kinds of ad hoc assistance activities, but its efforts were hampered by lack of strategic planning, coordination, and emphasis.
- 1.4. The review also recommended that the Bank’s approach to the remedial and preventive aspects of anticorruption needed to be modified and augmented, and that the Bank should go beyond its focus on protecting Bank-provided funds and expand its activities to help countries move toward good governance. Box 1 lists the milestones in the evolution of Bank policy in this area.

**B. The IDB-9 requirements**

- 1.5. As part of “strengthen[ing] mechanisms to combat fraud and corruption,” the IDB-9 required the Bank to “maintain a leadership position on the issue of combating fraud and corruption” by implementing the three key recommendations of the 2008 review:<sup>6</sup>
- “First, improve the capacity to assure that Bank-financed activities are free of fraud and corruption, by carrying out a series of modifications focused on the functions of the various bodies charged with oversight, sanctions and investigation.
  - “Second, develop and implement strategic plans for effective treatment of fraud and corruption and to support transparency and anticorruption efforts in the region.
  - “Third, carry out a series of reforms related to integrity standards for Bank staff, including creating the Ethics Office, a new Code of Ethics and Professional Conduct, Bank-wide training on ethics and the implementation of the financial disclosure system for potential conflicts of interest.”
- 1.6. It was also noted that the Board had approved a new Board Code of Conduct that includes regulations for a new Board Conduct Committee, and a new financial disclosure system to avoid potential conflicts of interest for Executive Directors.<sup>7</sup>

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<sup>6</sup> IDB-9 Action No. 64; subtheme CFC.

<sup>7</sup> The report does not comment on the Board Code of Conduct, which was approved in its amended version before the IDB-9 commitments. The financial disclosure policy is the subject of a separate OVE evaluation.

### **Box 1. Milestones in the evolution of the IDB policy on corruption and governance**

- 1992: World Bank first policy statement on governance and development.
- 1995: IDB President Iglesias speech on corruption.
- 1996: IDB overhauls procurement to allow acting in cases of fraud and corruption.  
Board approves policy on Modernization of the State (i.e., governance).  
Countries sign Inter-American Convention against Corruption.
- 1998: First definition of “prohibited practices” incorporated into procurement policies
- 2001: Board adopts the “Systematic Framework Against Corruption.”  
Creation of the Oversight Committee on Fraud and Corruption (OCFC).
- 2003: Creation of the Office of Institutional Integrity (OII).
- 2004: Sanctions Committee established.
- 2006: Creation of the Institutional Capacity of the State division.
- 2006: Uniform Framework for Preventing and Combating Fraud and Corruption adopted in September by IDB; World Bank; African, Asian, and European Development Banks; European Investment Bank; and International Monetary Fund.
- 2007: Appointment of Ethics Officer and establishment of a Code of Ethics.
- 2008: Independent review of the IDB’s anticorruption framework.
- 2009: Action plan to implement the review recommendations.
- 2010: Board approves Country Systems Strategy.
- 2011: March: New institutional strategy for growth and welfare includes sections on strengthening public sector management and fighting corruption.  
April: Cross-debarment agreement with other MDBs becomes effective for the IDB.  
May: Review of the ethics, conduct, and grievance framework.

## **II. METHODOLOGY**

### **A. Scope**

- 2.1. This report reviews and assesses the progress of implementation of the various changes required under the IDB-9 commitments on anticorruption and governance. It also identifies emerging issues, comments on the likelihood of positive impact, and advances a number of suggestions. It is too early in the implementation of those changes to attempt to evaluate their effectiveness.

### **B. Main evaluation questions**

- 2.2. The overarching question in this area is the same for the IDB as for all other multilateral and bilateral development agencies: In the fight against corruption and for better governance, have the institution’s actions matched its stated intentions? Under this general question, the report focuses mainly on the following:
- To what extent have the IDB-9 commitments been implemented, and what issues have emerged in the process?

- Is the current organizational architecture suited to efficient efforts to combat external fraud and corruption and foster internal integrity?
- Are the authorities and accountabilities of the main units clear? Are their resources adequate?
- Have all three strategic pillars of the Bank's policy received sufficient attention and support?
- Have all major complementary measures been taken?
- What are the prospects for future consolidation of the actions taken, and the likelihood of their eventual impact?

### C. Sources of evidence

- 2.3. The evaluation rests largely on an extensive review of internal and external documentation and on interviews. Because the implementation of the changes is very recent, other reliable evidentiary information is not yet available.
- 2.4. **Documentation.** The relevant documentation included the basic constituting documents on fraud and corruption, ethics, and support for governance and integrity in the member countries, and their amendments after 2008; the annual reports of the OII, the Ethics Office, and the Ombudsperson; the principal external reviews of the Bank's anticorruption framework and the ethics, conduct, and grievance system; and a variety of external indicators of governance and public integrity. For comparability information, World Bank and ADB sources were also consulted, as well as a few scholarly publications directly relevant to fraud and corruption. A list of references and documents is appended.
- 2.5. **Interviews.** Free-ranging interviews were conducted with the Staff Association and with managers and selected staff of all the units concerned with the fight against fraud and corruption, ethics, and country support agenda: the Office of Institutional Integrity; Ethics Office; Ombudsperson; Strategic Planning and Development; Case Officer; Sanctions Committee; Human Resource Department; and the Institutional Capacity of the State, Fiscal and Municipal Management, and Financial Management and Procurement divisions. The interviews focused on the implementation of the measures taken by the Bank as part of the IDB-9 commitments, and on unresolved or emerging issues in that connection. A list of persons interviewed is appended at the end of this report.

### III. FINDINGS

#### A. The new organizational arrangements: Summary

- 3.1 IDB has made a number of significant organizational changes to strengthen the fight against fraud and corruption (Box 2 outlines the new arrangements). Today the units directly concerned with the prevention of fraud and corruption in Bank operations are the OII, the Sanctions Case Officer, and the Sanctions Committee. The Legal Department also performs important functions in this respect, particularly concerning the whistleblower policy and support for the sanctions system. To foster internal integrity, the Ethics Office is responsible for interpreting and enforcing the Code of Ethics and Professional Conduct, and the Ombudsperson plays an important conflict resolution role, as also will the new mediation system to be introduced in 2013. The Institutional Capacity of the State division has the mandate to support countries' own capacity to improve public integrity and governance, with substantial contributions from the Fiscal and Municipal Management division (which is in charge of all fiscal and public expenditure management operations) and, through its work on strengthening fiduciary country systems, the Financial Management and Procurement division. The implementation of the strategy on fiduciary country systems is the subject of a separate background paper, but it must be emphasized that some of the most effective actions to combat corruption are those that strengthen capacity, expand transparency, and tighten accountability in public financial management and government procurement.
- 3.2 A critically important change, made in response to a recommendation of the 2008 Review, was to separate anticorruption policy from individual investigations of fraud and corruption. The OCFC had been created in 2001 to receive allegations of fraud and corruption against Bank staff or in Bank activities, assign investigation responsibility, and oversee investigations and the implementation of their conclusions. In 2010 the OCFC was disbanded and its mandate and membership were reconfigured into the Anti-Corruption Policy Committee (ACPC), charged with developing policy and exercising general oversight but without involvement in investigations. The new Committee is chaired by the Executive Vice-President and its membership was expanded to include most Bank senior managers, as well as the Chief of the OII.

## **Box 2. Summary of post-reform organizational arrangements against fraud and corruption**

After the implementation of the recommendations of the 2008 Review, the Bank's anticorruption efforts are guided by the Anticorruption Policy Committee (ACPC), which formulates policy and provides general oversight but does not involve itself in reviewing specific allegations.

For preventing corruption in Bank operations and fostering staff integrity, the key entities are:

- **Office of Institutional Integrity (OII).** The OII is responsible for investigating allegations of fraud, corruption, and other "prohibited practices" in Bank projects, as well as in corporate procurement. The OII does not investigate allegations of staff misconduct.
- **Case Officer.** Based on the results of OII investigations, the Case Officer may recommend appropriate sanctions, up to permanent debarment (an action that, since 2011, entails corresponding action by the other multilateral development banks).
- **Sanctions Committee.** The Sanctions Committee decides appeals to decisions by the Case Officer.
- **Ethics Office.** The Ethics Office reviews allegations of violations of the Code of Ethics and Professional Conduct, recommending appropriate action directly to Management.

Also contributing in important ways to integrity and ethical behavior are the **Ombudsman**, who, as in other organizations, has an informal conflict resolution role; the **Human Resources Department** for implementing the personnel management system; the **Legal Department**; and, beginning in 2013, the new mediation system.

For supporting countries' own capacity to combat fraud and corruption, the main entities are:

- **Fiscal and Municipal Management division (FMM).** Since end-2011, FMM has had responsibility for both government revenue issues and public expenditure management. This unified responsibility for public fiscal and financial management is central to anticorruption efforts
- **Institutional Capacity of the State division (ICS).** ICS supports governance improvement and anticorruption efforts and helps strengthen public institutions and government administration.

Also important is the **Financial Management and Procurement division (FMP)**, through its activities to validate national fiduciary systems with a view to their potential use in Bank-funded activities. (See the Background Paper on Country Systems.)

## **B. The first pillar—Preventing fraud and corruption in Bank-financed operations**

3.3 The Progress Report of May 3, 2012, summarized implementation under the first pillar of the anticorruption agenda as follows:

- The OCFC was reengineered into the ACPC.
- In 2010, OII was elevated to independent advisory office.
- The Sanctions Systems Case Officer position was created, and a Case Officer was appointed in late 2011.

- The Sanctions Committee was expanded and provided with a Secretariat. The cross-debarment agreement with the other multilateral development banks (MDBs) became effective for the IDB Group in April 2011.

## **1. The Office of Institutional Integrity (OII)**

### **a) Investigations**

- 3.4 The primary responsibility of the OII is to investigate information related to the five “prohibited practices” in Bank Group-financed activities—corruption, fraud, coercion, collusion, and obstruction. The OII decides to investigate an allegation if credible information about one or more of the prohibited practices concerns an activity financed by the IDB Group. As Box 3 shows, OII investigations cover a variety of cases, although the vast majority, about 80 percent, relate to cases of fraud and corruption. The OII does not have a mandate to investigate allegations of Bank staff misconduct, although prior to 2011 it did so at the request of the Ethics Office, which at that time lacked investigative capacity of its own. OII no longer investigates any allegation of staff misconduct. Before 2009 the OII lacked regular protocols and procedures and had little organizational visibility. As a result, the quality of its work was perceived as low, with some investigations languishing for over a year and their conclusions generating little trust. In keeping with the recommendations of the 2008 Review, a revitalization effort was launched in late 2009. The OII was given its own place in the organizational structure, a new head was appointed in early 2010, clear procedures were adopted, and the backlog of cases was sharply reduced.<sup>8</sup>

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<sup>8</sup> GN-2440-18, October 2009. There was no budgetary impact from this change.

### **Box 3. Examples of OII investigations**

- A firm hired by the Bank committed fraud in executing a Bank-financed water and sanitation study: unilaterally, and without the required Bank authorization, it changed key personnel and the methodology, and it misled the Bank by suggesting that the original methodology was implemented by the qualified professionals included in its technical proposal. Several of the firm's reports had been plagiarized.
- A university that was acting as a consultant for an executing agency provided a false medical certificate.
- Misrepresentation in project execution: during the execution of a construction project the supervisors presented a certification of completion, but the works had not been completed to the extent claimed in the certification.
- A company fraudulently overbilled an executing agency.
- A construction firm submitted false invoices and a forged certificate.
- Names of real firms were used to submit false bids.
- A consultant solicited gifts from beneficiaries of a program targeting rural areas.
- A winning bidder was on list of sanctioned firms and submitted false documentation to hide that fact.
- A firm forged documents for goods leased for the tendered project.

*Source:* Various OII annual reports.

#### 3.5 Other noteworthy changes since 2009 include the following:

- A new case management system, approved in 2010, was put in place during 2011 and became operational in January 2012. It is intended to be expanded to the entire sanctions system.
- A case triage mechanism, approved in September 2011, is intended to allow investigators to manage their time better and supervisors to focus attention on the more important cases.
- New guidelines on integrity and due diligence for non-sovereign guarantee (NSG) operations were approved in October 2010.
- New guidelines on the use of foreign entities in NSG operations were approved in September 2011.
- A voluntary cooperation and disclosure program has been formulated and may be considered at a later time for eventual adoption.

These changes are potentially important, but they are much too recent for any evidence to be available on their functioning and to comment on the likelihood of their impact on OII effectiveness.

## **b) OII activity**

- 3.6 Table 1 summarizes OII activity from 2007 through mid-2012. The number of new investigations opened each year has remained about the same, but their composition has changed: investigations of allegations of staff misconduct have declined because the Ethics Office now conducts its own investigations, and those of allegations of prohibited practices have increased. The case completion rate rose sharply in 2010, reflecting the effort to clear the backlog of old cases, before falling back to a more sustainable level in 2011 and 2012. Between 2011 and 2012, the average completion time declined from about 6 months to 4.5 months.
- 3.7 The single most obvious change after 2009 is the remarkable increase in the number of consultations with staff—quadrupling in 2010, almost tripling again in 2011, and increasing further so far in 2012. Because almost 90 percent of consultations relate to NSG operations, the major factor in the increase was the Bank’s adoption of new guidelines on integrity and due diligence for NSG operations, and on use of foreign entities in NSG operations. However, part of the increase is attributable to OII’s intensifying its advice to project teams concerning the assessment and mitigation of integrity and related reputational risks in their operations.
- 3.8 The higher percentage of substantiated allegations in 2007-2010 raises the question of whether after 2010 the OII standards of proof were tightened or the new avenues for complaints after 2010 generated a large increase in weakly grounded or unfounded complaints. The latter explanation appears more likely, as there is evidence of a sharply higher awareness of the channels available for reporting prohibited practices, in parallel with the ethics survey finding of increased staff willingness to report staff misconduct (discussed in section C.5).
- 3.9 This report cannot comment on the quality of OII investigations (although several interviewees expressed a belief that it has improved since 2009), or on changes in the importance of the substantiated cases and the appropriateness of the resulting sanctions. However, the improvements in the case completion rate and the reduction in completion time are positive initial indications.

**Table 1. OII Investigative activities, 2007-2012**

| Category   | 2007 | 2008 | 2009 | 2010  | 2011  | 2012 <sup>a</sup> |
|--|------|------|------|-------|-------|-------------------|
| Investigations opened <sup>b</sup>                   | 136  | 122  | 163  | 139   | 130   | 132               |
| Consultations held <sup>c</sup>                      | 76   | 100  | 25   | 105   | 288   | 316               |
| Investigations completed                             | 162  | 150  | 152  | 154   | 101   | 88                |
| Percentage of allegations substantiated <sup>d</sup> | 30%  | 24%  | 29%  | 23.4% | 12.6% | NA                |
| Average days for completion                          | NA   | NA   | NA   | NA    | 185   | 131               |

Source: IDB, OII Annual Reports for 2007-2011.

<sup>a</sup> Data for 2012 are from the mid-year report, issued in September. They have been annualized, as the previous years do not show a seasonal pattern.

<sup>b</sup> Does not correspond to the number of active investigations, as some active investigations were opened in the previous year. The increase in sanctions-related activity is somewhat underestimated, as, prior to 2011, investigations included alleged misconduct by Bank staff.

<sup>c</sup> Almost 90% of consultations were related to NSG operations, and half were reviews of project documents to provide advice to project teams on identifying and mitigating integrity and reputational risks.

<sup>d</sup> Percentage of external allegations only, not including staff misconduct.

3.10 Two changes are likely to raise OII's effectiveness significantly—the exclusive focus on prohibited practices in Bank-financed operations, and the new contestability flowing from the authority of the Sanctions System Case Officer to not recommend sanctions when s/he considers the results of OII investigations inadequate (as discussed in the next section). Finally, the actual impact of a given sanction imposed by the IDB is far heavier and serves as a stronger deterrent to malfeasance because of the Agreement for Mutual Enforcement of Debarment Decisions, reached by the IDB, AfDB, ADB, European Bank for Reconstruction and Development, and World Bank in April 2010 and effective for the IDB Group in April 2011.

### c) Prevention

3.11 A robust anticorruption agenda must include activities to strengthen procedures and mechanisms to mitigate integrity and reputational risks.<sup>9</sup> In addition to consultations with staff, OII prevention activities include the following:

- *Integrity risk reviews* are sector- or country-specific assessments, done at the request of the operational department, to identify indicators of risks,

<sup>9</sup> The Hong Kong Anticorruption Commission developed a highly successful three-pronged approach: reducing the openings for corruption, enforcing sanctions on violators, and providing education and dissemination.

recommend mitigation actions, and produce an “integrity action plan” in collaboration with the country office.<sup>10</sup>

- The *Red Flags Matrix* is a list of indicators developed by the OII with input from the Operations Procurement Office to assist in identifying and mitigating risks of fraud and corruption in project procurement. The matrix, which is integrated in the Procurement Execution Plans Execution system, is available in all country offices.
- *Fraud risk assessment in corporate procurement* is carried out by the Corporate Procurement Division based on a methodology developed in consultation with OII and the Auditor General.

The OII also offers some training, has collaborated with other MDBs, and has organized a variety of conferences and seminars.<sup>11</sup>

## **2. The sanctions system**

3.12 The new organizational arrangements are much clearer than, and superior to, the previous ones. Under the new procedures effective in April 2011, the sanctions system rests on the OII investigations of prohibited practices, and includes the new position of Sanctions System Case Officer and a reengineered Sanctions Committee.

### **a) Case Officer**

3.13 If the OII investigates allegations and finds that a preponderance of the evidence (i.e., “more likely than not”) indicates that a prohibited practice has occurred, it submits a preliminary notice of administrative action to the Case Officer. If the Case Officer does not concur that the evidence is sufficient, s/he returns it (after consulting the Chair of the Sanctions Committee) to the OII, which may resubmit the case. Otherwise, the Case Officer recommends an appropriate sanction and notifies the company or individual concerned, which has two separate opportunities to respond.

3.14 The Case Officer’s determination and recommended sanction stand, unless the company or the individual appeals to the Sanctions Committee. Pending final resolution of the case, the Case Officer has the authority to temporarily suspend individuals or firms from participating in IDB Group-financed activities.

3.15 Sanctions include, in order of severity, private reprimand, public reprimand, temporary debarment from eligibility for IDB Group-financed contracts, and

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<sup>10</sup> In 2011, six such reviews were conducted, for Paraguay, Peru, Bolivia, Nicaragua, Argentina, and Uruguay. Time constraints prevented an assessment of the integrity risk reviews and action plans within this report. It would be useful to conduct a targeted evaluation of the utility and cost-effectiveness of all OII prevention and training work.

<sup>11</sup> For details on all these activities, see the OII annual reports, particularly those for 2010 and 2011.

permanent debarment. As has been noted, under the Agreement for Mutual Enforcement of Debarment Decisions, the Bank and the other MDBs recognize each other's decisions of ineligibility. Debarment by any one of these institutions is therefore a highly effective deterrent to engaging in prohibited practices, and the most important weapon in the struggle against fraud and corruption in aid-funded activities.<sup>12</sup>

- 3.16 In 2011, the Case Officer resolved 13 of the total 16 cases processed: 4 cases were rejected (9 were initially rejected and returned to OII, which successfully resubmitted 5), and 9 Notices were issued to 26 respondents.

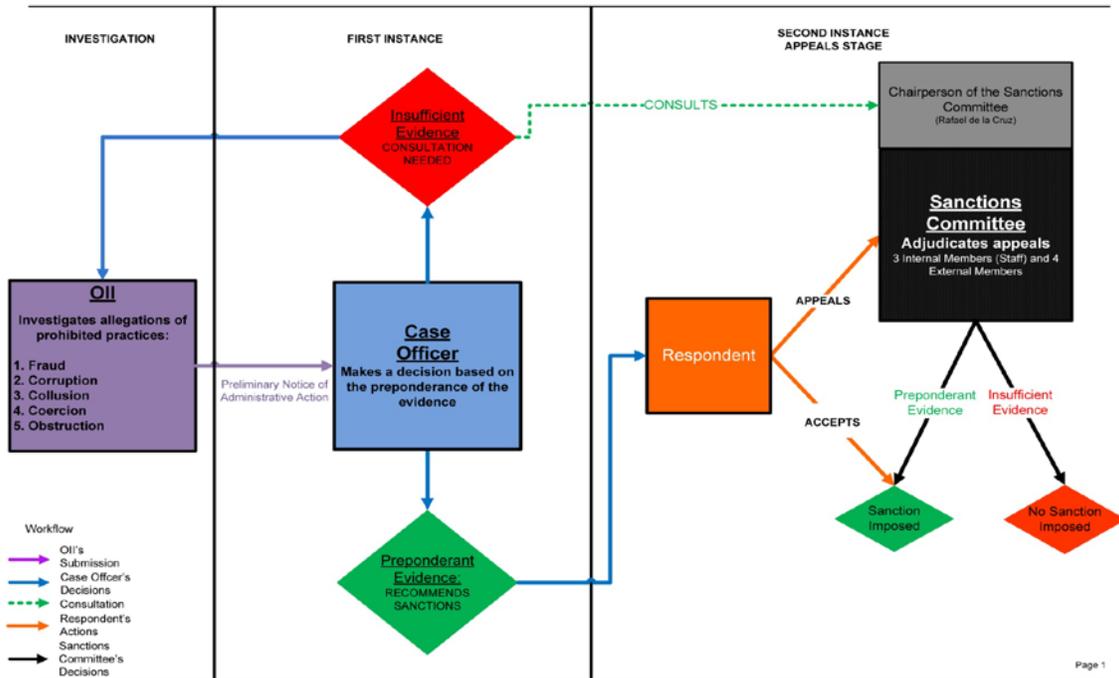
**b) Sanctions committee**

- 3.17 In accordance with the recommendation of the 2008 Review, the Sanctions Committee was given a full-time Secretariat and expanded from five internal staff members to three internal and four external members, all highly experienced in fraud and corruption issues. The Committee has a Chair, appointed by the IDB President, and a Secretary, and it receives and adjudicates appeals of the decisions of the Case Officer. The Sanctions Committee normally operates through panels of three members (two external and one internal) appointed by the Chair, but the full committee may consider cases with exceptional features or implications. In any event, the Chair is responsible for ensuring consultation with all committee members to promote sharing experiences and uniformity of decisions. The Chair also has the role of sharing experiences with other concerned bodies, including the ACPC and the Audit Committee of the Board. This division of responsibilities and workflow in the new system is illustrated in Figure 1.

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<sup>12</sup> Recognition of sanctions is not automatic, and must comply with criteria specified in the cross-debarment agreement and undergo a process of recognition by each of the participating institutions.

Figure 1. Overview of the sanctions process



### c) Dissemination and communications

3.18 After a sanction decision becomes final upon the failure to appeal to the Sanctions Committee (or the Committee's denial of the appeal), the Secretary of the Sanctions Committee posts all debarments on the Bank's website—whether the debarment is an action of the Bank itself or recognizes a decision by another party to the debarment agreement. However, it is the OII that serves as liaison with the other MDBs—notifying them of sanctions imposed by the Bank; receiving their notices of sanctions and channeling them to Senior Management; and, absent major objections, informing the Secretary of the Sanctions Committee, who then posts the debarment on the IDB list of sanctioned parties. The reasons for this split of responsibilities between OII and the Sanctions Committee are unclear.

## C. The second pillar: Support member countries in improving public integrity

### 1. The scope of the corruption issue

3.19 Public corruption remains a major issue in Latin America, as it is in most of the world. To give context to the relevance of the Bank efforts to support countries to reduce corruption, three corruption indicators for 2003 and the latest year for which data are available are shown in Table 2. These indicators are the Transparency International Corruption Perception Index (CPI); the World Bank's Control of Corruption indicator; and the pertinent questions from the

Latinobarometro survey. (Note that in the CPI the higher the score the *lower* is the perceived corruption—it is in fact an “integrity perception index.”)

- 3.20 Neither the CPI nor the Control of Corruption indicator shows an improvement in public integrity in Latin America during the past few years. However, there has been a significant rise—almost 10 percentage points—in the proportion of Latinobarometro survey respondents who considered that corruption in their country had decreased. Also noteworthy is the substantial improvement registered by Bolivia, Colombia, Ecuador, Panama, Paraguay, and especially Uruguay—where during the last decade public integrity as assessed by Transparency International rose to the level of Chile and the United States and higher than that of several European countries (e.g., Spain and Portugal).
- 3.21 The Latin America and Caribbean Region, with its average CPI of 3.4, rates much less favorably than European Union countries (with an average of about 6); slightly better than Asia, with an average CPI of 3.2 and deterioration in the last decade (see Quah, 2011); and much better than Africa’s 2.8, despite the significant improvement in that region (see McFerson, 2010).
- 3.22 It is clear that the stereotype of especially widespread and intractable public corruption in Latin America is no longer valid (if it ever was). But equally clear is the distance that most countries of the Region have to travel before coming close to the public integrity levels that are required to maximize aid effectiveness and accelerate inclusive development. Thus the second pillar of the IDB strategy continues to be relevant.

## **2. Planning and organizational changes**

- 3.23 The 2008 Review concluded that the Bank had focused mainly on protecting the funds it provided, rather than also supporting country efforts to combat corruption. It saw the two objectives as complementary: if countries have effective anticorruption mechanisms, the Bank has less need to supply its own. Although the Bank had in fact encouraged good governance through several unrelated assistance activities, it had done so without the benefit of strategic planning, coordination, and emphasis.
- 3.24 In 2009 the Bank formulated an Action Plan (PAACT, in the Spanish acronym). Among other things, the PAACT assigned to the recently-created ICS division the mandate to support good governance and institutional capacity building in a broad range of areas, including anticorruption projects.<sup>13</sup>

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<sup>13</sup> ICS is part of the Institutions for Development department (IFD). The two other divisions of IFD are FMM and the Capital Markets and Financial Institutions Division.

**Table 2. Corruption indicators, 2002-2011**

| Country                   | Latinobarometro Survey |              | Transparency International Corruption Perception Index |             | World Bank Control of Corruption Index |              |
|---------------------------|------------------------|--------------|--|-------------|--|--------------|
|                           | 2003                   | 2010         | 2002   | 2011        | 2002                                   | 2010         |
| <b>Argentina</b>          | 26.08                  | 20.91        | 2.80   | 3.00        | 35.10                                  | 39.70        |
| <b>Bolivia</b>            | 18.67                  | 37.08        | 2.20   | 2.80        | 17.60                                  | 38.30        |
| <b>Brazil</b>             | 28.33                  | 40.37        | 4.00   | 3.80        | 58.00                                  | 59.80        |
| <b>Colombia</b>           | 54.91                  | 46.92        | 3.60   | 3.40        | 49.30                                  | 43.10        |
| <b>Costa Rica</b>         | 27.98                  | 41.70        | 4.50   | 4.80        | 73.70                                  | 72.70        |
| <b>Chile</b>              | 37.08                  | 42.67        | 7.20   | 7.20        | 91.70                                  | 90.90        |
| <b>Ecuador</b>            | 21.33                  | 49.75        | 2.20   | 2.70        | 14.60                                  | 20.10        |
| <b>El Salvador</b>        | 24.20                  | 31.30        | 3.40   | 3.40        | 29.80                                  | 51.20        |
| <b>Guatemala</b>          | 11.63                  | 19.00        |  |             | 36.60                                  | 35.40        |
| <b>Honduras</b>           | 27.04                  | 32.60        | 2.70   | 2.60        | 16.60                                  | 21.10        |
| <b>Mexico</b>             | 26.45                  | 32.09        | 3.60   | 3.00        | 50.70                                  | 44.50        |
| <b>Nicaragua</b>          | 37.73                  | 31.90        | 2.50   | 2.50        | 40.00                                  | 23.40        |
| <b>Panama</b>             | 15.73                  | 52.70        | 3.00   | 3.30        | 43.90                                  | 45.50        |
| <b>Paraguay</b>           | 23.50                  | 36.34        | 1.70   | 2.20        | 2.40                                   | 24.90        |
| <b>Peru</b>               | 23.68                  | 21.33        | 4.00   | 4.40        | 45.90                                  | 50.20        |
| <b>Uruguay</b>            | 35.00                  | 56.42        | 5.10   | 7.00        | 78.50                                  | 86.10        |
| <b>Venezuela</b>          | 22.33                  | 37.34        | 2.50   | 1.90        | 11.70                                  | 7.20         |
| <b>Dominican Republic</b> | -                      | 22.60        | 3.50   | 2.60        | 42.90                                  | 22.00        |
| <b>Guyana</b>             |                        |              |  |             | 41.00                                  | 34.00        |
| <b>Haiti</b>              |                        |              | 2.20   | 1.80        |  | 6.70         |
| <b>Jamaica</b>            |                        |              | 4.00   | 3.30        | 31.20                                  | 45.00        |
| <b>Trinidad</b>           |                        |              | 4.90   | 3.20        | 52.20                                  | 46.40        |
| <b>Bahamas</b>            |                        |              |  |             | 90.70                                  | 88.50        |
| <b>Barbados</b>           |                        |              |  |             | 89.30                                  | 89.50        |
| <b>Belize</b>             |                        |              |  |             | 48.30                                  | 56.00        |
| <b>Average</b>            | <b>27.16</b>           | <b>36.28</b> | <b>3.48</b>  | <b>3.44</b> | <b>43.67</b>                           | <b>45.69</b> |

Sources: Latinobarometro surveys: percentage of respondents who answered “somewhat” or “a lot” to the question of whether corruption had decreased during the previous years; [www.transparency.org](http://www.transparency.org) for CPI (the lower the index, the higher the level of perceived corruption); and [www.data.worldbank.org](http://www.data.worldbank.org) for World Governance Indicators for Control of Corruption (the lower the indicator, the higher the level of perceived corruption).

- 3.25 In a related initiative, in March 2011 the Bank also approved a Strategy for Institutions for Growth and Social Welfare, which includes sections on public sector management and anticorruption.

- 3.26 Later in 2011 the IDB consolidated into the FMM division all responsibility for operational activities in public financial management—including both the revenue and the expenditure side and, on the expenditure side, budget preparation as well as execution and control. (The exception is external audit, which remains within ICS, reportedly because of its connection to fiscal transparency.) This important measure unifies responsibility for what is, and must be approached as, an integrated set of fiscal and budgeting goals and functions. With competent implementation, this internal reform will avoid the costs, mistakes, and inefficiencies of organizational fragmentation in operations to support public financial management.<sup>14</sup>
- 3.27 It needs to be emphasized that “anticorruption” is not a “sector” but a cross-cutting issue, which should be addressed through a variety of initiatives by different units. Whether at the macro level, in sectors, or through individual projects, most interventions to improve the management of the public sector or to strengthen institutions can have a positive impact on public integrity. This recognition is at the heart of the PAACT.

### **3. The PAACT and its implementation**

- 3.28 The PAACT identifies the external and internal implications of the 2008 Review and proposes activities for each.<sup>15</sup> Annex A lists the PAACT activities and links them in general terms to the recommendations of the 2008 Review.
- 3.29 The PAACT contains a number of sound general directions: the imperative to pay attention to country and sector context; a focus on sectors; prioritizing institution building as an entry point for prevention and control of corruption; and strengthening support for improvements in subnational governance. The emphasis on the need to “contextualize” the Bank anticorruption activities is especially important. It fits well with the lesson of international experience that institutional reforms must be adapted to the specific country circumstances, especially administrative capacity and the incentive framework.
- 3.30 Regrettably, the same respect for capacity realities and the role of incentives is not visible in the PAACT itself, which suffers from the same weakness as so many other broad reform proposals: neglect of the critical questions of *who* is to implement all the recommendations, with *what* resources, and under *what* new incentives. It is therefore doubtful that many of the proposed activities were themselves implementable under any realistic and contextualized scenario.<sup>16</sup>

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<sup>14</sup> Such fragmentation, aggravated by decentralization of some but not all public financial management functions, characterizes the current World Bank arrangements (see World Bank, 2012.)

<sup>15</sup> Action Plan to Support Countries in Their Effort to Fight Corruption and Foster Transparency, November 2009, GN-2540. ICS formulated the PAACT with support from OII and the Procurement division.

<sup>16</sup> Also, some recommendations are ambiguous (e.g., “develop a knowledge-generation strategy that leverages the development of capacity”), or of dubious utility (e.g., the “development of a new

- 3.31 Still, by and large the PAACT compares reasonably favorably to similar attempts in other institutions,<sup>17</sup> and it advances several actionable recommendations—for example, establish a regional dialogue on governance and corruption; develop feedback between fiduciary and operational functions; and promote a network of multisector specialists with an interest in governance and corruption.
- 3.32 There is no evidence that most of the actionable recommendations have been implemented, and the optimistic hypothesis that some of them may have been internalized in particular sectors or projects cannot be tested without a massive data-gathering and survey exercise. However, some of the Action Plan directions do appear to have made an initial mark on Bank programs: specifically, support civil society involvement, deepen governance work in extractive resources, and develop interventions in targeted transparency.

#### **4. The ICS: Strategy and activities**

##### **a) Strategic approach**

- 3.33 In a recent analysis, Jon Quah (2011) identified five main factors of corruption: (i) low salaries of civil servants and political leaders; (ii) cultural characteristics; (iii) lack of political will; (iv) red tape and opportunities for corruption; and (v) low risk of detection and punishment. Because civil service reform is notoriously difficult, and cultural and political aspects are unlikely to change in the short and medium term, the last two factors are the ones that are most amenable to constructive intervention to improve public integrity. Corruption opportunities can be lessened by improving transparency and simplicity; and the risk of detection and punishment can be raised by fostering participation and strengthening accountability mechanisms.
- 3.34 The “targeted transparency” approach that ICS has adopted, focusing primarily on extractive industries and country-specific initiatives, goes part of the way in that direction. The approach deemphasizes broad anticorruption initiatives. Latin American countries in general (and higher-middle-income countries in particular) have moved away from accepting external pressures for broad reforms—which tend to take a long time and thus may overlap different governments with different popular mandates and priorities—and toward concrete actions that are likely to bring positive results within the tenure of one elected government.<sup>18</sup> The

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generation of contextual indicators”), or more aspirational than operational (e.g., “strengthen coherence among diagnostic assessment, programming, and project design”).

<sup>17</sup> See, for example, the highly critical evaluation of the Africa Action Plan by the World Bank’s Independent Evaluation Group in 2011.

<sup>18</sup> A separate OVE paper reviews the IDB Strategy for Institutions for Growth and Social Welfare, including its sections on public sector management and on anticorruption and transparency. (“Review of IDB’s Institutions for Growth and Social Welfare Strategy,” September 9, 2012, internal OVE draft.) It concludes, correctly, that the strategy as a whole simply reflected activities that were already ongoing and had little if any impact on the way the Bank works. However, the explicit formulation of the approach to anticorruption and public sector management was useful.

support for transparency and accountability initiatives has been therefore largely country-driven and country-tailored.

## **b) Activities**

3.35 It has been noted that “anticorruption” is not a “sector,” but rather a theme crossing virtually every aspect of government operations. A variety of Bank activities are relevant to improving public integrity in member countries—research, support to capital markets and the financial sector, combating money laundering, and others. Among all these, activities to strengthen public administration and public financial management—including in particular activities to strengthen procurement and financial management—generally have a more direct impact on public integrity. One could therefore count as part of the “anticorruption” effort all loans and technical assistance grants by ICS and FMM, most of PRODEV (the Bank’s institutional capacity-building program), and even FMP. Moreover, because many projects in other sectors have an institution-building component—which indirectly tends to improve public integrity in the sector—some portion of those projects could also be added to the measure of the overall Bank effort. And, at the project level, the direct involvement of fiduciary staff as members of project teams should lead to greater cost-effectiveness and reduced corruption risk in the individual projects in every sector (see the discussion of “fiduciary reform” in the Country Systems background paper). Unfortunately, because the Bank’s database does not include a thematic breakdown of project objectives, the level of governance/anticorruption activity is systematically underestimated—and to an extent that cannot be determined without a major, costly, and time-consuming analytical and data-gathering effort.<sup>19</sup> It is equally impossible to track changes in level of effort. Because of the explicit mandate assigned to ICS in the PAACT, it is important to at least review briefly the programs managed by that division. Since all public financial management activities have been assigned to FMM, ICS’s activities are divided into two major areas: public management and citizen security. The security area is subdivided broadly between support for prevention activities (such as youth-at-risk and community management) and for enforcement (police, justice, and prisons). While it can be argued that the security programs also have some indirect impact on overall public integrity, the programs with a direct and major impact are in the public management area.

3.36 Public management is in turn subdivided among “modern government” (organizational reform, e-government, regulation, etc.); “modern public management” (human resource management, statistics and monitoring and evaluation, strategic planning, etc.) and “transparency and accountability.” Successful initiatives in the first two categories—such as e-government, changes in civil servant incentive systems, sensible regulatory reform—can have a substantial impact on governance and public integrity. But “public integrity” is a

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<sup>19</sup> A similar problem is found when attempting to quantify the changes in the actual use of national procurement and financial management systems; see the background paper on Country Systems.

continuum, and the line must be drawn somewhere. In this case, the focus is on projects and activities designed *expressly, primarily and directly* to improve public integrity in the country concerned, i.e., the ICS program of “transparency and accountability.” (This focus is also consistent with the ICS’s own strategic approach of “targeted transparency.”) As of August 2012, of the total ICS public sector management portfolio of US\$832 million in active loans, more than half is in “modern public management,” more than one-third in “modern government,” and just around 10% in lending for “transparency and accountability” (T&A). Further, of the US\$79 million in T&A loans, more than two-thirds were approved before the creation of the ICS division in 2006, leaving US\$23 million approved since 2007. To this amount should be added US\$10 million in grants from technical cooperation and the Anticorruption Activities Trust Fund (mostly Norwegian-financed), for a total of US\$33 million during the last seven years, or about \$4.7 million per year. As Table 3 shows:

- Lending for T&A dropped during 2010-2012 to just one operation (US\$5 million in 2010, for modernizing El Salvador’s parliament), from over three times that amount in the period preceding the implementation of the IDB-9 commitments.
- Part of the drop was offset by an increase in technical cooperation and trust fund grants, from 9 to 21 operations and from US\$3 million to US\$6.7 million.
- Total support for T&A fell in 2010-2012 to just over half of the 2007-2009 amount. Net of the Anticorruption Activities Fund the IDB contribution declined even more sharply, from US\$20 million to US\$8 million.

**Table 3. Transparency and accountability:  
Loan and grant approvals, 2007-2009 and 2010-2012**

| Category                       | 2007-2009            |                | 2010-2012            |                | TOTAL                |                |
|--------------------------------|----------------------|----------------|----------------------|----------------|----------------------|----------------|
|                                | Number of operations | Amount (US\$m) | Number of operations | Amount (US\$m) | Number of operations | Amount (US\$m) |
| Loans                          | 3                    | 18.3           | 1                    | 5.0            | 4                    | 23.3           |
| Technical cooperation grants   | 5                    | 1.6            | 10                   | 3.0            | 15                   | 4.6            |
| Anticorruption Activities Fund | 4                    | 1.4            | 11                   | 3.7            | 15                   | 5.1            |
| <b>TOTAL</b>                   | <b>12</b>            | <b>21.3</b>    | <b>22</b>            | <b>11.7</b>    | <b>34</b>            | <b>33.0</b>    |

3.37 The average amount per operation fell also, from US\$1.8 million to \$327,000. This is consistent with the “targeted transparency” strategy of concrete interventions in country-specific areas of special interest. These interventions themselves appear realistic and relevant (see Box 4). But no matter how useful these initiatives might be, and however many caveats, justifications, and allowances can be made, an investment of US\$3.9 million a year in 2010-2012—

US\$150,000 per country on average—does not suggest that the Bank is giving high priority to the “transparency and accountability” program.

**Box 4. Examples of ICS T&A activities**

BR-T1146: *Support to the Public Expenditure Observatory for Combating Corruption*—to enhance transparency and efficiency of public expenditure in Brazil, through the redesign, expansion, and implementation of the Public Expenditure Observatory, including for the first time at subnational level.

CH-T1091: *Shared Use of Information to Improve the Fight against Corruption*—to improve corruption investigations in Chile by facilitating information sharing among the Comptroller General, the Public Prosecutor, and the State Defense Council.

HA-L1051: *New Technologies and Institutional Capacity Building Program*—to contribute to strengthened government capacity in Haiti through the implementation of a technology platform to institutionalize transparency, accountability, and collaboration among all government entities and partners participating in the reconstruction process.

BL-T1034: *Strengthening Belize’s Fiscal Transparency and Responsibility*—to strengthen the government’s capacity to promote transparency, accountability, external scrutiny, and oversight in public finances.

EC-T1185: *Transparency in the Extractive Industry*—to strengthen the capacities of Ecuador’s public and private institutions to design, endorse, and implement transparency standards in extractive industries, focusing on the promotion of collective action by public sector, private companies, and civil society.

- 3.38 More generally, of all the Country Strategies approved after 2009, only 10 include a focus on supporting efforts to reduce corruption and fraud—and most of those do so in generic terms or indirectly, through actions to strengthen public financial management (see Table 4).

**Table 4. References to governance and anticorruption in country strategies**

| Country            | Approval date | Governance and anticorruption as a priority   |
|--------------------|---------------|---|
| <b>Belize</b>      | <b>9-Jun</b>  | The government’s program is centered on instituting good governance and ensuring an improved quality of life. One of the country’s medium-term priorities is ensuring sound fiscal management and transparency.   |
| <b>Bolivia</b>     | <b>11-Sep</b> | One of the priority sectors identified in the strategy is the strengthening of public governance.   |
| <b>Brazil</b>      | <b>12-May</b> | One of the IDB’s strategic objectives is to strengthen the institutional capacity of public entities. The objectives are to develop efficient human resource management, improve the efficiency and quality of public expenditure and the delivery of public services to citizens by state governments, reduce institutional disparities between Brazilian tax administrations, and promote cooperation and integration of finance administrations in three levels of government.             |
| <b>Chile</b>       | <b>11-Dec</b> | One objective is to improve management in the central government.   |
| <b>Colombia</b>    | <b>12-Feb</b> | Governance and modernization of the state (strengthening public administration, good governance, and the fight against corruption) is one of the strategic cooperation focuses identified in the National Development Plan—with the objectives of improving the quality of public administration and strengthening oversight; strengthening subnational fiscal responsibility, and increasing the subnational tax effort. Specific and monitorable indicators are defined for each objective. |
| <b>El Salvador</b> | <b>10-Jul</b> | Strengthening public finances by increasing tax revenue collected and improving the efficiency of public spending; also, improving transparency and prevention and control of corruption  |
| <b>Guyana</b>      | <b>9-Feb</b>  | Guyana must complete its institutional and governance reforms and continue discipline in the government’s economic and fiscal management. Support will be given to increase transparency in the financial sector (including reforms of the anti-money-laundering framework).  |
| <b>Mexico</b>      | <b>10-Dec</b> | The IDB’s strategic objective is to improve the effectiveness and efficiency of public expenditure at the federal and subnational levels to bring about greater transparency and control of public expenditure and an improved composition of subnational government expenditure, with higher level of investments.   |
| <b>Nicaragua</b>   | <b>9-Feb</b>  | One of the five objectives in the government’s plan is fiscal sustainability and the strengthening of public management. In the dialogue agenda, support the country with different actions to strengthen governance.   |
| <b>Suriname</b>    | <b>11-Nov</b> | The main focus is on supporting the transition to modern public governance structures. Risks to the reform agenda from entrenched groups and limited implementation capacity will be mitigated by strong government ownership.  |

## 5. The Extractive Industries Transparency Initiative

3.39 Increasingly important in the Region is the encouragement of good governance of the extractive sector. By the well-known “resource curse,” the abundance of oil and other valuable minerals has been associated in many countries with grave governance weaknesses. As McFerson (2010a) demonstrates, a self-sustaining dynamic has been at work, with lack of accountability enabling elite appropriation

of resources, which in turn perpetuates the governance and corruption problems. Several international initiatives have been taken in recent years to foster transparency in mineral production and revenue. In particular, the IDB-9 Report views as part of the Bank's accountability agenda the endorsement of the Extractive Industries Transparency Initiative (EITI), which advocates transparency and accountability in contracts and payments in extractive industries.

- 3.40 Although the endorsement of the EITI, in itself, does not have operational implications, the Bank activities to encourage countries to adhere to the initiative fit well with the ICS "targeted transparency" approach. Indeed, the important ICS project in Ecuador noted in Box 4 was intended specifically to strengthen the capacities to design, endorse and implement transparency standards in extractive industries. Among other ongoing activities, Colombia is preparing a program in support of its EITI candidacy. (Interviewees for a parallel OVE study of higher-middle-income countries expressed grave concerns about the risks to democracy in Colombia from a failure to address effectively the issues of governance of extractive industries and resources.) The IDB established a joint ICS/ENE team to promote the EITI and, in December 2011, approved a technical assistance facility for "Strengthening Governance in the Extractive Industries in Latin America and the Caribbean." A brief evaluation of the Bank efforts in the EITI area is at Annex B.

## **6. Summing up**

- 3.41 On balance, it appears that the second pillar has received much less support, priority, visibility, and recognition from either Management or the Board than the other two pillars (protection of Bank resources and staff integrity). Because the ICS strategic approach is sound and the actual T&A interventions are relevant, the Bank may yet have a significant positive impact in this area—provided that it pursues the targeted transparency approach vigorously and with more adequate resources, coordinating with (i) public sector interventions to expand social accountability, and (ii) financial management interventions to strengthen public financial accountability.

### **D. The third pillar: Ensure internal integrity**

#### **1. Review of the ethics framework**

- 3.42 Barely three years after the thorough revision of the Code of Ethics and establishment of the Ethics Office, the Board requested an independent review of the ethics, conduct, and grievance system.<sup>20</sup> The review, carried out by Global Compliance and completed in May 2011, concluded that (i) the Ethics Office operates in a manner comparable to the ethics offices of other organizations; (ii) staff is increasingly using it; and (iii) staff impressions of the Office are generally

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<sup>20</sup> This request was reportedly prompted by misgivings about a few highly sensitive cases in 2009 and 2010.

favorable. Annex C presents a summary of the main Global Compliance recommendations and their justification.<sup>21</sup>

- 3.43 Most of the 60 recommendations elicited no objections from Management, the Staff Association, or the Administrative Tribunal and were approved by the Board. The remaining four recommendations were assigned to two working groups reporting to the Organization, Human Resources and Board Matters Committee. The working groups' proposals were approved by consensus, with only two items referred to a new working group for further review.
- 3.44 The May 2012 Progress Report noted the formulation of an action plan to implement the approved recommendations, including expediting case consideration by the Administrative Tribunal; replacing the peer review system (Conciliation Committee) with professional mediation as a prerequisite for access to the Tribunal; updating the Code of Ethics and requiring annual ethics training; emphasizing employee obligations to report misconduct; and making organizational and procedural changes to implement these changes.
- 3.45 The October 18 Progress Report confirmed that 33 of the 40 recommendations allocated to Management for implementation have been implemented and the remainder are on track for implementation by the target dates. Most notably:
- The Ethics Committee, which heard appeals of decisions by the Ethics Office, ceased to exist at end-2012 (although it will complete the case load remaining on that date). The results of Ethics Office investigations are presented directly to the Vice President for Finance and Administration for decision on appropriate disciplinary sanction, and appeals are made directly to the Tribunal.<sup>22</sup>
  - The position of the Ombudsperson was made eligible for a second 5-year term.

## **2. The Code of Ethics and Professional Conduct**

- 3.46 The Code of Ethics, first promulgated in 1976, was substantially revised in 2006. It was merged in 2007 with the separate code of conduct into a Code of Ethics and Professional Conduct, bringing many types of misconduct under the jurisdiction of the new Ethics Office.
- 3.47 The Global Compliance review concluded that the Code was not in a format suitable for easy understanding and public dissemination. A revision was

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<sup>21</sup> Global Compliance, *Review of the Ethics, Conduct and Grievance Systems of the Inter-American Development Bank*, May 16, 2011.

<sup>22</sup> This change is in line with practice at the World Bank and other international organizations, and is consistent with the responsibility of the executive to investigate and take decisions on such matters (subject to review by the Administrative Tribunal). It also relieves the members of the Ethics Committee, who were Bank staff, from the awkwardness and potential conflict of interest entailed in judging appeals by fellow staff members.

mandated as part of the IDB-9 commitments, and the revised Code was approved by the President in October 2012, after presentation to the Board for their input.<sup>23</sup> The revised Code, which is broadly consistent with established good practice, has essentially the same substantive coverage as the previous code but is in a more accessible format. Also, it better defines the procedures for reporting misconduct and the subsequent processing, and it clarifies the rights and responsibilities of the individuals in the process.

### **3. Early staff perceptions of ethics at the IDB**

3.48 A compulsory training program for all staff was delivered during 2006-2007. Between 2006 and 2009, the IDB conducted several surveys of staff attitudes on ethics to assess the impact of the training (Annex D provides the detailed results). During that period, staff willingness to report violations increased sharply. The highest increase in willingness to report was in reporting violations to the Ethics Committee, more than doubling to 84% of staff in 2009, compared to fewer than 40% in 2006. Also, while the manager was identified in 2006 as the main figure to whom to turn for ethics and conduct violations, subsequent surveys showed a shift to the Ethics Committee as the main complaint channel.<sup>24</sup> Although the survey results hint at doubts on the utility of the ethics training (criticism that was echoed by some of the interviewees for this report), the training appears to have had an impact—at least on staff awareness of the existence and role of the Ethics Committee. However, many violations reported to the Ethics Committee consisted of “offensive remarks,” suggesting that the formal ethics system was getting clogged up with complaints that should normally be handled as part of a manager’s regular responsibilities—an issue to which we will return later.

### **4. Ethics Office**

3.49 The Ethics Office was established in 2007 with the principal mandate to investigate allegations of violations of the Code of Ethics.<sup>25</sup> Initially, it had no staff except the office head. Some efforts were later made to create a minimum internal capacity, but in the early years the Ethics Office had to rely on OII for investigating allegations of staff misconduct. The OII no longer conducts any investigation of staff misconduct, except when there is a connection between an allegation of staff misconduct and a prohibited practice in a Bank-funded project. Whether the Ethics Office now has an adequate capacity to conduct its own investigations is an open question.<sup>26</sup>

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<sup>23</sup> The revised Code of Ethics was originally to be presented on June 14. The date was postponed to allow the new Ethics Officer, appointed in August 2012, to have input.

<sup>24</sup> There was also a persistent misunderstanding on the reporting channels for ethics violations, with 30% of staff mentioning OII instead of the Ethics Office.

<sup>25</sup> Peculiarly, the IDB-9 commitments included creating an Ethics Office, which by then had already been in place for two years.

<sup>26</sup> Under the new arrangements, the Ethics Office has a direct line to the President, with VPF continuing to oversee day-to-day administrative matters.

**a) Investigations**

3.50 Since 2009, the Ethics Office has received around 45 allegations of employee misconduct a year. In 2011, the Office investigated 54 allegations of staff misconduct (some pending from 2010) and concluded its review of 36.<sup>27</sup> The largest single category of allegations—42 percent—concerned “respect in the workplace”; conflict of interest accounted for 22 percent, and the remaining 36 percent was spread across the other nine categories. Only 4 of the 36 concluded investigations resulted in a finding of substantiated misconduct—with 14 allegations, or 39%, dismissed by the Ethics Officer for lack of jurisdiction or referred to other offices. The proportion of allegations dismissed outright is close to that of allegations relating to “respect in the workplace.”

**b) Consultation and prevention**

3.51 The Ethics Office also has a role in providing guidance on how to avoid and manage conflicts of interests. Of the total of 280 consultations in 2011, over 70 percent related to actual or potential conflicts of interest.<sup>28</sup> It is plausible that without this activity, the number of allegations of conflict of interest would have been much higher than the 10 that were registered in 2011 (of which only one was substantiated).

3.52 It is also important to mention the confidential ethics helpline and the online employee declaration of interest form, which was expanded to include staff at Grade IV as well as new supervisors as they are hired. All 805 staff required to complete the form did so. Some persons interviewed for this report believed that neither the helpline nor the declaration of interest form has had a significant positive impact on the ethics climate.

3.53 This report has not examined in detail the Ethics Office’s ethics training program, but some interviewees have voiced skepticism about its usefulness. In any event, the focus of training should be on disseminating and explaining the provisions of the Code and the potential penalties for violation, rather than attempting to “train” staff in ethical behavior.

3.54 Regrettably, the Ethics Office had been conspicuous by its absence from the IDB Organizational Chart—not a very strong signal of the institution’s interest in staff integrity, nor a facilitator of external complaints about IDB staff misconduct. This omission was corrected in August 2012.

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<sup>27</sup> Despite the increase in Ethics Office capacity, the backlog of pending cases rose from 10 at end-2010 to 18 at end-2011.

<sup>28</sup> The annual number of consultations has increased steadily, from 127 in 2007 to 170 in 2008, 240 in 2009, and 256 in 2010.

## **5. Whistleblower protection**

- 3.55 In October 2003, Staff Rule 328 was approved to provide protection for whistleblowers. Following a recommendation of the 2008 Review, the rule was amended in 2009 to expand protection to external parties who act as whistleblowers—defining acts of reprisal and referring such acts to national authorities.<sup>29</sup> The Global Compliance report recommended further strengthening whistleblower protection by covering employees who report misconduct or participate in investigations, even if misconduct is not ultimately found. This new provision was included in the revised Code of Ethics. The new whistleblower policy was approved in October 2012.<sup>30</sup>

## **6. Ombudsperson**

- 3.56 As in other organizations, the roles of the IDB Ombudsperson are to help staff resolve workplace problems and to alert Management to emerging issues affecting the work environment. The Ombudsperson office operates with full confidentiality but interacts constructively with HRD and the Ethics Office, and receives high marks from all interlocutors—part of the rationale for the recommendation to allow a person serving in the position of Ombudsperson to be eligible for a possible second term.
- 3.57 The number of cases received by the Ombudsperson increased significantly in 2009 and 2010, to 183 and 239, respectively, and dropped back in 2011 to a more normal annual pace of about 180 cases. Of these, the majority were from headquarters staff (57%), female staff (61%), and staff in technical jobs (63%). The issues raised were in a wide variety of areas, with 37% concerning personal relationships (the large majority of which related to supervisory relationships) and 25% concerning conduct and ethics (the large majority of which related to “respect in the workplace”). These proportions have remained more or less constant through recent years. Interestingly, however, cases related to career progression in 2010 and 2011 fell to 21% from their peak of more than half of total cases in 2007 and an average of 30% in 2008-2009. Interviewees were not sure whether this change indicated an improvement in career assessment procedures and advancement or a decrease in staff confidence that career complaints would be fairly adjudicated.

## **7. A capsule assessment**

- 3.58 It is a major improvement to go from a multilayered, opaque, and personalized structure to a simpler one with a clear division between authority and responsibility. In particular, the elimination of the Ethics Committee places the accountability for disciplinary sanctions squarely on Management, where it

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<sup>29</sup> See GN-2440-10, September 2009.

<sup>30</sup> The drafting of the new policy was led by LEG, with inputs from working groups with representation from ETH, VPF, HRD, OMB, EVP and PCY, and responsibility for its implementation will be shared by many units throughout the Bank.

belongs (subject to relief by the Administrative Tribunal), and heightens the Ethics Office responsibility to conduct thorough and professional investigations.

- 3.59 Whether the new system will work as intended depends primarily on the functioning of the Ethics Office. If its capacity is limited, either by an overbroad mandate or insufficient resources, and/or its credibility is low because of the quality of its investigations or other factors, the organizational changes will not be effective.

## **8. Personnel management—The missing link**

- 3.60 The integrity agenda cannot be pursued in isolation from the IDB's broader policies on human resources. The implementation of the IDB-9 commitments in the area of ethics has brought to the surface the need for complementary measures in personnel management, particularly to clarify the responsibility and authority of line managers.
- 3.61 The high number of allegations related to "respect in the workplace" that are brought to the Ethics Office raises several issues. In the first place, the category itself is inherently ambiguous: one person's "disrespectful behavior" may be another's "candid criticism." Second, it is difficult to adjudicate these allegations, as many are of the "he said, she said" type, and thus investigations tend to produce inconclusive results. The definition of "respect in the workplace" has been tightened up in the revised Code of Ethics, but remains ambiguous. Fresh consideration should be given to whether such a category of staff "misconduct" should be handled through quasi-legal channels. Third, many supervisors are not sure of what they can and cannot do about instances of "disrespect" in the workplace, and what they should report and to whom.
- 3.62 A broader issue in IDB is the extent of accountability of managers for people management, and the availability of confidential and regular channels for staff feedback about their direct supervisors ("upward feedback"). Interviews undertaken by OVE for this evaluation indicate that both of these areas are underdeveloped and need to be addressed going forward.
- 3.63 Except for the whistleblower rule, which has just been updated, many of the IDB's personnel rules are old. In particular, the rule on staff conduct goes back to 1998 (although its date on the IDB website is November 2006), and parts of it are ambiguous. The Bank has begun an effort to revisit a variety of staff rules, including those relative to staff conduct and "respect in the workplace."

## IV. CONCLUSIONS AND SUGGESTIONS GOING FORWARD

- 4.1. The IDB's new organizational and institutional framework for combating fraud and corruption is clearer and entails sharper accountabilities than the structure built piecemeal prior to 2009. In both the sanctions and the ethics areas, however, an underlying general issue needs to be confronted: it is important to raise the overall level of trust in the Bank by finding the right balance between the extremes of strict adherence to the letter of the rules and rigid enforcement, on the one hand, and excessive tolerance of informal and personalized decision-making, on the other. As with other background papers for the IDB-9 evaluation, this background paper does not contain formal recommendations, but it does provide suggestions for Management consideration going forward. The main intent of these suggestions is to help complement and further consolidate the changes already made—in the logic and the spirit in which they were made—rather than advocate substantial modifications, which would not be justified at this early stage of implementation of the new system.

### A. The first pillar: Protecting Bank resources

- 4.2. Judging from a number of interviews, staff confidence in OII investigations has inched up along with the reported improvement in their quality. Most relevant in this respect is the new contestability provided by the Case Officer's power—already frequently exercised—to reject an OII recommendation s/he views as insufficiently proven. Also, the initial concern by some of possible interference by members of the Board proved unfounded. None of the interviewees reported any attempt by an Executive Director to interfere with an ongoing investigation, except for asking about the stage of the investigation and the probable timing of its conclusions.<sup>31</sup> It is essential to ensure that the OII has complete independence during the investigation process. That aside, a number of suggestions emerge from the findings and conclusions of this evaluation.

#### 1. Explicit protocol for case settlement

- 4.3. The procedural framework for sanctions that has been put in place during the past three years is satisfactory, but it does not include an explicit policy and protocol for the settlement of cases before a full investigation is carried out and completed, and a sanctions notice issued. Fair “out-of-court” settlements, albeit very infrequent, can be an important part of an effective legal framework, but must themselves follow explicit and uniform criteria and procedural steps. A simple protocol should be formulated, at an early opportunity, in consultation among the concerned units. This suggestion is in no way intended to intimate that such informal settlements should be other than exceptions to the normal procedures

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<sup>31</sup> By contrast, some interviewees expressed the view that there has been occasional intervention by senior management in ongoing investigations in the past.

that have been in place since 2011, and should in any case not be under the responsibility of OII.

## **2. Permanent leadership for the OII**

- 4.4. OII's current placement in the Bank organizational structure is appropriate, and its resources have been strengthened. However, the good functioning of the Office depends critically on the effectiveness of the head and the degree of support from top management.
- 4.5. At present, OII has an interim head, who was appointed in early 2012. However meritorious the performance of any individual may be, "acting" status is typically a constraint to effectiveness and generates uncertainty in any organization. Allowing such an anomalous situation to continue would hamper OII and give a bad signal to the external community. Moreover, the duties, authorities, and responsibilities of the head of OII are currently not defined in sufficient and explicit detail. It is urgent to draw up detailed terms of reference and on that basis appoint a permanent head of OII.
- 4.6. Among the first tasks of a permanent head of OII would be (i) a review of the staff and financial resources available to the Office and recommendations for a resource level that is predictable and consistent with the Office responsibilities; and (ii) recommendations for more regular and systematic interaction with the President and with other major stakeholders within the Bank, consistent with the reporting responsibility to the President and in the interest of greater efficiency of the Office as an arm of Management. (The fact that the head of OII is a member of the ACPC is not sufficient for this purpose).

## **3. Drawing a boundary between investigations and prevention**

- 4.7. The changes since 2009 have added much-needed clarity to the OII activities, about which there was substantial confusion in the Bank. A note of caution must be sounded, however, on the Office's expanding role in providing ex ante advice to operational teams on the integrity and reputational risks of their projects. While the benefits in terms of improving quality at entry and mitigating risks of corruption are clear, the Bank needs to formulate modalities to draw a sharp boundary between the organization and staffing of these activities and the fundamental role of OII to investigate allegations of prohibited practices in IDB Group-financed activities. Any ambiguity in this area risks diminishing the credibility of OII investigations, which are the primary function of the Office.

## **4. Centralizing responsibility for disseminating and publicizing sanctions**

- 4.8. The current division of labor between OII and the Sanctions Committee for the notification, receipt, dissemination, and posting of sanctions decided by the Bank or received from the other parties to the debarment agreement is unnecessarily complex, and generates a risk of confusion and miscommunication. It would be

clearer and more efficient to assign all responsibility in these respects (along with the requisite resources) to the Secretariat of the Sanctions Committee.

## **5. Communicating the reforms externally**

- 4.9. In addition to internal dissemination and explanation, it is critical to inform and communicate systematically the internal reforms to the external world—both to increase their effectiveness and to enhance the Bank’s image. A coordinated effort should be undertaken for this purpose, using a mix of headquarters and country office activities, and including a major Regionwide public event.

### **B. The second pillar: Supporting improvements in member countries**

- 4.10. This report has found that the three major issues in this area are (i) the weak and generic treatment of governance and anticorruption in country strategies; (ii) the meager resources allocated to the Bank’s transparency and accountability interventions; and, most importantly, (iii) the insufficient linkages among the units concerned, including in sectors.
- 4.11. The three priorities are accordingly to improve the substantive treatment of governance and anticorruption in Country Strategies where these issues are clearly relevant to development efforts; to raise the profile of the transparency and accountability program and augment its resources, reflecting experience and country demands; and strengthen the linkages between ICS/FMM and the main divisions in other sectors, where operations can have substantial governance and anticorruption implications.
- 4.12. With respect to the last priority, it would be important to provide for a systematic exchange of experiences and cross-fertilization of ideas among concerned staff on issues of state capacity, governance, public financial management, and the institutional components of projects in other sectors.<sup>32</sup> Also, because the most relevant experiences in governance and anticorruption tend to be those of countries in similar economic, political, and geographic circumstances, a regular regional dialogue on governance and corruption could usefully be established (this was also one of the PAACT recommendations).
- 4.13. Finally, whatever anticorruption activities are undertaken and by whichever unit they are undertaken, the Bank should make an effort to track and monitor the overall level of effort in this area. The current Bank project classification does not allow capturing the components of projects in sectors other than IFD that have a significant impact on fraud and corruption. Beyond the specific activities by ICS and FMM, the IDB could consider adding a “theme” subcategory to projects in every sector.

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<sup>32</sup> One such mechanism could be similar to the World Bank’s “Staff Week,” which the WB abandoned in 2011 for cost reasons—contrary to the experience that the short-term costs are outweighed by the improved effectiveness and impact of operations.

## **C. The third pillar: Fostering internal integrity**

### **1. Assessing staff attitudes**

- 4.14. Another ethics survey should be conducted at an appropriate time within the next two years, comparable to that of 2009 and with guidance by the Ethics Office and resources from HRD, to assess changes in perceptions from the previous years and obtain staff views on the strengths and weaknesses of the new system.

### **2. Streamlining the Ethics Office mandate**

- 4.15. Following the organizational reforms and with the appointment of the new Ethics Officer, the priority is for the Ethics Office to have the capacity to function effectively. However, capacity is relative to the tasks an entity is expected to perform. Thus, one means of improving the Ethics Office's capacity is to reduce the burden of mostly fruitless investigations of alleged lack of "respect in the workplace." A respectful workplace environment is essential for both the morale and the productivity of the institution. The issue, however, is how to enable and sustain such an environment. The current arrangements are suboptimal.
- 4.16. The revised Code of Ethics improves the definition of "respect in the workplace," but the term remains ambiguous, and convincing evidence to support allegations is inherently hard to come by. As a result, assessment of these issues not only wastes the limited resources of the Ethics Office, but also contributes to a climate of frustration (owing to the difficulties of adjudicating complaints) and prevents less contentious handling at managerial and administrative levels. To remove from the Code of Ethics the "respect in the workplace" category, after the lengthy debates and major changes of the last three years, would not be advisable and could generate unnecessary friction and suspicions. However, it would be useful to formalize and publicize the practice by which the Ethics Office will not accept any allegation of "disrespect in the workplace" unless the complainant has first attempted to seek a resolution through HRD and the Ombudsperson.<sup>33</sup> The recently approved informal mediation system can help resolve these types of conflicts at an early stage. But in addition, the Bank needs to take major steps to clarify the authority and accountability of managers. This leads to the next and last suggestion in this pillar.

### **3. Addressing Management performance**

- 4.17. The functioning of the new ethics system will in the end reflect the broader institutional and organizational environment in the Bank. It is important for IDB to review its systems for training managers, soliciting and providing feedback on their performance, and holding them accountable for the professional and respectful handling of their staff. Without these systems, there will continue to be

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<sup>33</sup> The Ombudsperson already performs a central role in these matters, with issues of respect in the workplace accounting for as much as 70% of all conduct and ethics issues in 2010, and over 80% in 2011.

a risk of weak responses to instances of inappropriate treatment of staff; excessive recourse to the Ethics Office for allegations of “disrespect”; infrequent resolution satisfactory to the complainant; and unnecessary burden on Ethics Office capacity. Personnel policy changes may also be needed, as managers cannot be expected to take disciplinary actions, even when warranted, in the absence of a clear policy explicitly authorizing specific actions, protocols governing such decisions, and confidence that they will have higher-level support. Without effective channels to address staff complaints and provide institutional support for managers’ disciplinary decisions, *both* managers and staff will be tempted to pursue their grievances through informal channels and recourse to personal networks—an approach that erodes the trust capital and overall productivity of the Bank.

- 4.18. Following the precedent of the 2008 review of the anticorruption policy and the 2011 review of the ethics and conduct framework, one option to consider would be an external review of the regulatory framework for personnel management. This review could cover an updating of not only the rule on staff conduct but also of the system of performance evaluation of managers—possibly including consideration of a systematic element of confidential evaluation by subordinates. The potential payoff from such a review could be great, not only for atmosphere and morale, but also for lending and better results of Bank operations.

**D. A Summary assessment**

- 4.19. As late as 2007, the Bank did not even publish the names of firms and individuals that had engaged in fraud and corruption, and the offices responsible suffered from severe lack of capacity, ambiguity of mandate, low profile and visibility, and insufficient support. During the last three years the IDB has taken substantial actions to fulfill the IDB-9 commitments, albeit more in areas resting within the Bank’s own authority (protect Bank resources and foster internal integrity). In these areas, the current situation represents a considerable improvement over the overlapping, opaque, and weak arrangements of earlier years.
- 4.20. Thus, in the first and third pillars, the overarching priority for the immediate future is consolidation of the actions taken. Prospects for this consolidation and for eventual positive impact appear good, in light of the rapidity with which the Bank has considered, accepted, and begun implementing many of the recommendations of the independent external reviews of its policies and practices. In contrast, the second pillar has enjoyed only limited recognition and support—in large part as the result of crowding out by other Bank priorities (including those identified in IDB-9 with corresponding lending targets), and possibly of limited demand from client countries. A significant indirect impact on corruption can be expected from the various initiatives to strengthen public sector management and from the “targeted” approach to transparency and accountability. However, the various Bank activities relevant to supporting countries’ efforts to improve governance and combat corruption require higher priority and stronger multisectoral coordination, and the transparency and accountability program in

particular should be pursued with larger resources than the very limited ones of recent years.

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**PARTIAL LIST OF PERSONS INTERVIEWED**

| <i>Name</i>   | <i>Title</i>  | <i>Department</i> |
|---|---|-------------------|
| Maristella Aldana                                       | Former Acting Chief - OII                                   | OII               |
| Elizabeth Rodezno                                       | President- Staff Association                                | SPD/SMO           |
| Luis Estanislao Echebarría                              | Gen. Manager & Chief SPD                                    | SPD/SPD           |
| Carola Alvarez  | Division Chief-Strategy Development                         | SPD/SDV           |
| Carlos Santiso  | Div. Chief-Institutional Capacity of State                  | IFD/ICS           |
| Juan Pablo Severi                                       | Social Protection Lead Specialist                           | SCL/SPH           |
| Iris Beatriz Gomez Santos                               | Corporate Services Specialist                               | ACP/PRC           |
| Michael L. Woscoboinik                                  | Former Acting Head - Ethics Office                          | SRE/ETH           |
| Ellen M. Connors  | Oversight Audit & Compliance Lead Specialist                | SRE/ETH           |
| Juan Gabriel Ronderos                                   | Oversight Audit & Compliance Lead Specialist (Case Officer) | SRE/SNC           |
| Cristian Santelices                                     | Div. Chief Strategy Monitoring                              | SPD/SMO           |
| Daisy Seebach   | Ethics Officer  | SRE/ETH           |
| Brigida Benitez   | Former Chief  | OII               |
| Doris Campos Infantino                                  | Ombudsperson  | SRE/OMB           |
| Several Executive Directors and Counselors              |   | EXD               |
| Several government officials in selected HMIC countries |   |                   |

*Note:* Other persons attended several of the meetings with the persons indicated.

**ANNEX A. ACTION PLAN TO SUPPORT COUNTRIES IN THEIR EFFORT TO FIGHT CORRUPTION AND FOSTER TRANSPARENCY**

October 2009

| Action Plan to Support Countries in Their Effort to Fight Corruption and Foster Transparency (PAACT) |  |   | Linkage to ERP Review (Nov. 2008)   |
|--|--|---|---|
| Main objective   | Implications   | Proposed activities   |   |
| External Level (General)   | Promote and develop high value-added programs, activities, and forums for dialogue in support of countries' efforts to combat corruption and foster transparency | <u>Strengthen contextualized diagnostic capacity</u><br>1. Develop corruption analysis methodologies that permit an approach contextualized by country/ level of government<br>2. Develop corruption analysis and diagnostics methodologies that permit an approach contextualized by sector<br>3. Support the review and strengthening of the Bank's methodologies for micro-institutional capacity analysis (e.g. CPAR, CFAA, CFA, ICAS, RFPP, among others)<br><br><u>Support the use and development of a new generation of contextual indicators</u><br>4. Support the use of existing indicators throughout the project cycle (e.g. PEFA)<br>5. Support development of new indicators that permit a contextual analysis | Strengthen measures aimed at reducing fraud and corruption in Bank-funded programs (e.g. fully implement the recommendations in the "Red Flags in Procurement" document; require bidders to certify if they have ever been sanctioned by another MDB; develop a regularized basis for suspending disbursements if the government fails to ensure access to evidence of fraud or corruption, etc.) |
|  |  | <u>Support implementation of international anticorruption conventions</u><br>6. Promote technical and financial assistance to support convergence and implementation of IACAC and UNCAC<br><br><u>Support and create opportunities for regional dialogue on governance and corruption</u><br>7. Establish an annual regional policy dialogue on governance and corruption<br>8. Promote the Bank's participation in regional and international events   |   |
|  |  | <u>Support strengthening of institutional capacity to prevent, control, and sanction corruption</u><br>9. Deepen support for countries in defining mechanisms for prevention of corruption based on the framework proposed by international conventions   | Encourage national governments to work with the Bank in enhancing their capacity to reduce fraud and corruption by improving procurement and administrative systems, and  |

| Action Plan to Support Countries in Their Effort to Fight Corruption and Foster Transparency (PAACT) |                           |   | Linkage to ERP Review (Nov. 2008)   |
|--|---------------------------|---|---|
| Main objective   | Implications              | Proposed activities   |   |
|  | and control of corruption | <p>10. Strengthen support for countries in consolidating mechanisms to detect, investigate, and sanction corruption</p> <p>11. Develop an intervention and awareness strategy in external and internal control</p> <p>12. Develop an intervention and awareness strategy in targeted transparency</p> <p>13. Strengthen support in governance, anticorruption, and transparency for subnational Governments</p> <p><u>Support involvement of the private sector and civil society</u></p> <p>14. Provide technical assistance to support the establishment of a favorable environment for good governance</p> <p>15. Support development of integrity practices in the private sector</p> <p>16. Deepen the incorporation of social control mechanisms in preparing and executing projects</p> <p>17. Support training of public officials and other stakeholders</p> <p>18. Continue including the issue of governance and corruption in Bank / civil society meetings</p> | <p>general good governance practices - especially in national justice systems; develop a voluntary disclosure program designed to encourage borrowers and contractors to reveal promptly their deviations from authorized practices in order to deter future misconduct; consider reviewing if the country has established a law reform commission in the assessment of a loan application for an adm. or judicial assistance program. Also consider including as a factor for the assessment of any loan application if the country and the potential contractor's country are parties to, have ratified, and are implementing, the anti-corruption conventions of the OAS and the UN. In addition, enhance the Bank's capacity to provide good governance assistance and direct advice concerning judicial assistance using Bank professionals as an alternative or a supplement to providing funding for justice advisory programs</p> <p>Assure widespread publication of the Sanctions Committee's decisions to make use of their deterrent value</p> <p>Consider expanding the Bank's good governance components in adm. and judicial assistance programs to subnational governmental units</p> |

| Action Plan to Support Countries in Their Effort to Fight Corruption and Foster Transparency (PAACT) |  |  | Linkage to ERP Review (Nov. 2008)   |
|--|--|--|---|
| Main objective   | Implications   | Proposed activities  |   |
| Internal Level (Institutional)   | Move toward the institutionalization of a systemic approach consistent with the operational cycle to support countries | Institutionalize a <i>systemic approach</i> to the treatment of corruption<br><br>7. Support strengthening of control and supervision methodologies throughout the project cycle by incorporating operational inputs | Concentrate the Oversight Committee's focus upon coordination of the Bank offices with responsibilities relating to the improvement of responses to fraud and corruption by the Bank and by national governments; refine standards and procedures for referring OII findings of possible criminal conduct to national law enforcement agencies, and develop standards and procedures for permitting OII to cooperate with national law enforcement agencies in an ongoing investigation |
|  |  |  |   |
|  | <i>Strengthen internal capacity for implementing</i>   | <u>Institutionalize mechanisms for coordination of fiduciary and operational functions</u><br>8. Define mechanisms for coordination with the Bank's relevant   | Facilitate OII coordination with the  |

| Action Plan to Support Countries in Their Effort to Fight Corruption and Foster Transparency (PAACT) |                                |  | Linkage to ERP Review (Nov. 2008)   |
|--|--------------------------------|--|---|
| Main objective   | Implications                   | Proposed activities  |   |
|  | the proposed systemic approach | <p>units, esp. between fiduciary-programmatic and operational functions</p> <p>9. Develop and apply mechanisms and tools for feedback between fiduciary and operational functions</p> <p>10. Promote a network of multisector specialists with an interest in this issue</p> <p><u>Strengthen the capacity of relevant units</u></p> <p>11. Identify the common training needs specific to each unit</p> <p>12. Where appropriate, develop a training plan for personnel relevant to implementation of the PAACT</p> <p>13. Develop a knowledge generation strategy that leverages the development of capacity</p> | <p>Risk Management Office to include evaluation of potential problems in the course of the Bank's consideration of sovereign supported loans as well as non-sovereign loans</p> <p>Assure the appropriate staffing levels required by OII and the Sanctions Committee to meet its responsibilities; modify the membership of the Sanctions Committee to include persons from outside the Bank with procurement experience or experience in other relevant areas</p> <p>Enhance OII's capacity for preventive training of personnel and for supporting ICS's initiatives for preventive training in national institutions; enhance the capacity of Bank offices to develop and support country programs to reduce fraud and corruption</p> <p>Consider the utility of appointing Bank staff members in field offices to serve as the central points of contact to assist OII in its in-country investigations to facilitate access to information sources in the field and to encourage informal communications with local investigative officials; explore the space for joint investigations with local investigative authorities.</p> |

| Action Plan to Support Countries in Their Effort to Fight Corruption and Foster Transparency (PAACT) |  |  | Linkage to ERP Review (Nov. 2008)  |
|--|--|--|--|
| Main objective   | Implications   | Proposed activities  |  |
|  | <p><i>Consolidate the Bank's leadership in supporting the fight against corruption in the region</i></p> | <p><u>Implement the Bank's institutional commitment to the fight against corruption</u><br/>           14. Identify and mobilize resources for the relevant units to give content to the proposed actions<br/>           15. Support relevant initiatives at the international level<br/>           16. Promote the evaluation and dissemination of progress in implementing the PAACT by Management<br/> <u>Support systematization and dissemination of knowledge on corruption and transparency</u><br/>           17. Prepare a plan to systematize knowledge and facilitate access to that knowledge by personnel relevant to development of PAACT<br/>           18. Promote documentation and dissemination of the outcomes of programs and initiatives in this area<br/>           19. Establish networks for exchanging and collaborating with the academic community<br/> <u>Strengthen coordination with other international stakeholders</u><br/>           20. Identify and develop opportunities for harmonization and cooperation with other international organizations<br/>           21. Form a working group for coordination at the operational level with other international organizations</p> | <p>Clarify understanding of the Bank's standards with regard to informing targets of investigations, local Bank offices, and national authorities of contemplated or ongoing investigations</p> <p>Encourage other MDBs to work cooperatively toward further harmonization of their investigative and sanctioning procedures, and to improve the ability of countries to reduce fraud and corruption; build on the progress that has been made in harmonizing the procedures followed by MDBs in fraud and corruption to have collaborating MDBs honor each other's debarments</p> |

## ANNEX B. IDB-9 REQUIREMENTS ON THE EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (EITI)

*“The recent endorsement of the Extractive Industries Transparency Initiative (EITI), which advocates for transparency and accountability in contracts and payments in extractive industries through the adoption of voluntary standards, is also part of the Bank’s agenda for strengthening its accountability framework.”* IDB 9 report, pag. 21.

### BACKGROUND AND CONTEXT:

The EITI is a global standard, launched in 2003, that promotes revenue transparency in the extractive industries (oil, gas, and mining). The EITI voluntary standards require extractive companies, including state companies, to publish their payments to governments,<sup>34</sup> governments to publish what revenues they receive, and to undergo an independent audit to reconcile these reports and identify discrepancies. Civil society must be active participants in the process. An International EITI Board and Secretariat, based in Oslo, are the guardians of the EITI methodology internationally. To date, fourteen countries worldwide have been declared as compliant with EITI, including Peru in LAC, and 22 countries have achieved candidacy status,<sup>35</sup> including Guatemala and Trinidad & Tobago in LAC. Peru became a candidate in 2007 and achieved compliance in 2012 without involvement from IDB.<sup>36</sup>

Prior to its endorsement of EITI, the Bank had already been supporting the “Ecuador-Extractive Industries Transparency Initiative”<sup>37</sup> as a country-specific activity. While this TC is outside of the EITI’s global framework, it has the very similar objective of increasing the transparency and reduce opportunities for corruption in the petroleum sector by developing a proposed national policy on revenue reporting and monitoring, through a consensus process between government, civil society and the private sector. To date, this project has delivered several studies, a conference, and awaiting the preparation of an evaluation report by an independent consultant.

With reference to the Board’s endorsement of the EITI on August 5, 2009, the management proposal document provides the background and context:<sup>38</sup>

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<sup>34</sup> Including profit taxes, royalties, dividend, signing bonuses and production bonuses, license fees, rental fees, entry fees and other considerations for license/concessions.

<sup>35</sup> Ref. [www.eiti.org](http://www.eiti.org): To become an EITI Candidate, a country must meet the first five of a total of 20 steps required to achieve EITI Compliant status. These steps include: 1. Public announcement; 2. Government commits work with civil society and companies; 3. Government appoints EITI implementation leader; 4. Government establishes multi-stakeholder group to oversee implementation of EITI; 5. Multi-stakeholder group publishes EITI implementation plan.

<sup>36</sup> A Technical Cooperation (KCP) Proposal on EITI in Peru has been approved but not funded.

<sup>37</sup> EC-T1185

<sup>38</sup> GN-2510-2, p.3

*“IDB is alongside those organizations including other MDBs that meet EITI principles. As such, the endorsement of EITI does not have operational implications. Endorsement of the EITI does not represent a legally-binding commitment to take any specific course of action, nor does it involve a financial commitment to the EITI. Endorsement would reasonably be seen as a public expression of support for the global initiative, and parties of interest may look to the IDB to be more actively engaged in the activities of the coalition of EITI supporters and the promotion of its standards generally. The IDB may be expected to attend EITI bi-annual meetings as an observer and engage in policy dialogue with borrowing member countries rich in and exporters of natural resources. The IDB may also be called upon to consider providing technical assistance on EITI-related matters and to consider whether to seek certain public disclosure requirements in applicable operations. EITI principles may be the subject of consideration by the IDB for future financing for that segment of the extractive industries dealing with the exploitation of natural resources in those countries of the region that have endorsed the EITI.”*

### **What steps has IDB taken to implement the IDB-9 requirements?**

After a slow start, the IDB established a joint ICS/ENE team to promote the EITI and, in December 2011, approved a US\$1 million technical assistance facility for “Strengthening Governance in the Extractive Industries in Latin America and the Caribbean,”<sup>39</sup> as IDB’s first tool towards supporting EITI implementation in member countries. The specific objectives of this TC are to: (i) improve transparency and access to information; (ii) strengthen legal and regulatory reform; (iii) build capacity within governments and civil society to improve the monitoring of socio-economic and environmental impacts; and (iv) increase and disseminate knowledge on extractive industries. Through this regional facility the Bank has supported the following activities:

#### *1) Technical Assistance to Selected Member Countries:*

- a) Trinidad & Tobago: technical assistance for a legal and regulatory review of extractive industries in support of the country’s EITI candidacy triggers in the PBL for Sustainable Energy,<sup>40</sup>
- b) Surinam: preparation of a technical note to inform discussion of a potential EITI candidacy trigger for a future PBL; and
- c) Colombia: preparation of a collaborative approach with the World Bank in support of the country prospective EITI candidacy.

#### *2) Outreach in relation to Private Extractive Industry Investments in LAC*

- a) Argentina: Awareness raising on EITI, as part of the due diligence for the Vale-Potasio Rio Colorado mining project;

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<sup>39</sup> RG-X1129

<sup>40</sup> TT-L1023

- b) Guatemala: discussed the government's interest in IDB support for EITI implementation; and
- c) Paraguay: Awareness raising on EITI, in conjunction with a Rio Tinto smelter project.

3) *Knowledge Products:*

- a) Organized, in collaboration with the Government of Peru, the World Bank and the EITI Secretariat, a Conference on Open Government and Transparency in Extractive Industries in Latin America and the Caribbean, in Lima, Peru, in June, 2012.
- b) Prepared technical notes on EITI as inputs for the country strategy and programming process in Bolivia, Guyana and Surinam; and
- c) Began preparation of a research paper on "Strengthening Governance in Extractive Industries in LAC" that will feed into an IDB flagship publication on "Natural Resources and Fiscal Efficiency in Latin America and the Caribbean."

1.1. As a supplement to the TC program, additional EITI-related activities undertaken by the Bank include:

1) *Participation in EITI Board Meetings and Conferences*

- a) 5<sup>th</sup> EITI Global Conference, March 2011, Paris, France
- b) 19<sup>th</sup> EITI Board Meeting and EITI Donors and Technical Assistance Providers Roundtable, February 2012, Sussex, UK
- c) 20<sup>th</sup> EITI Board Meeting, co-hosted by IDB in conjunction with the Conference on Open Government and Transparency in Extractive Industries in Latin America and the Caribbean, in Lima, Peru, in June, 2012.

2) *Outreach to Donors and Companies on support for EITI*

- a) In conjunction with the IDB's cooperation with Korea Gas Corporation (Kogas) to work on energy initiatives in Latin America and the Caribbean, the Bank facilitated Kogas' signing up to EITI and become a corporate supporter; and
- b) The Bank has reached out to other donors, including World Bank, AusAid, GIZ and USAID to coordinate future activities at the country or regional levels and to explore the possibility of funding or co-funding of future EITI activities.

### **Are these steps timely, relevant and efficient?**

From the time of IDB's endorsement of EITI in 2009, the supporting steps have proceeded slowly and gradually, mainly driven by the evolving interest from member countries. To date, the Bank has received requests for assistance on EITI from the governments of Peru, Guatemala, Trinidad and Tobago, and has been asked to assist on EITI in the context of wider institutional support to the mineral sector from Colombia, Peru and Suriname. In one form or another, the Bank has responded to all of these requests and, in addition, also explored potential EITI support in a few additional countries. Since EITI is a voluntary standard, from the implementing countries' perspective, and client interest and ownership is an essential prerequisite for Bank involvement, the deliberate pacing of the Bank's EITI activities appears to be appropriate for this program.

As noted above, the specific objectives of this TC program are to: (i) improve transparency and access to information; (ii) strengthen legal and regulatory reform; (iii) build capacity within governments and civil society to improve the monitoring of socio-economic and environmental impacts; and (iv) increase and disseminate knowledge on extractive industries. As OVE could determine, the Bank's EITI activities to date are fully consistent with these objectives.

Finally, considering that this program is being managed on a part-time basis by a very small team (in INE/ENE and IFD/ICS), the implementation of this program can be deemed to be reasonably efficient.

### **Do these steps appear to be effective so far?**

Given that the Bank's EITI support program was only set in motion with the approval of the regional TC in December 2011, with a three-year timeframe, it is still too early to assess the effectiveness of most of the activities supported by the program. Nonetheless, OVE's review of available documents and interviews with key staff was able to document the following:

- The EITI support program has enabled the Bank to expand its reach in this area further than its single prior intervention in support of Ecuador's interest in pursuing transparency in the extractives sector outside of the EITI's global framework.
- The Trinidad & Tobago PBL on Sustainable Energy<sup>41</sup> includes triggers for the country to achieve EITI candidacy by October 2011 (achieved prior to approval), start the EITI validation process by October 2012, and conclude validation by October 2013.
- The Lima Conference on Open Government and Transparency in Extractive Industries provided an opportunity for the Bank to demonstrate its

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<sup>41</sup> TT-L1023

endorsement of Peru's participation in EITI and its willingness to support other countries in the region towards improved governance and transparency in the extractive industries.<sup>42</sup>

- The IDB's engagement with the EITI Board, Secretariat and other donors has enabled it to propose a Region-specific perspective for ongoing efforts to review and revise EITI's strategy and theory of change, with a view of anchoring it more firmly within a wider governance reform agenda for extractive industries.<sup>43</sup>
- The preparation of EITI-focused technical notes has not resulted in its being highlighted in the published country strategy and programming papers.<sup>44</sup> While the technical notes were highly appreciated by the country teams, the governments were either not interested in the Bank's involvement with the sector or at too early a stage in the development of their sectoral policy and institutional frameworks to commit to such an initiative.
- Specifically, the preparation of a technical note on Suriname and the participation of a government delegation in the Lima conference, has not yet led to including EITI candidacy related measures in a forthcoming PBL
- In relation to Guatemala, the Bank has decided to avoid becoming involved with EITI in light of the substantial reputational risks associated with a highly conflictive legacy of environmental and social impacts from the mining sector.

**Does it appear that the IDB's actions are likely to result in full and effective implementation of the IDB-9 requirements?**

Nearly a decade after its launch, rate of EITI's acceptance by resource rich developing countries has been slow but steady. Globally, of the 36 participating countries, the majority -- 21 (58 percent) -- are located in sub-Saharan Africa. In other regions, the number of participating countries has been much lower, with 10 (28 percent) Asia, 3 (8 percent) in Latin America, and 2 (6 percent) in Europe. EITI members tend to be clustered among the smaller countries, which account for only a small share of global hydrocarbons and minerals production. EITI participation by major resource rich countries has been very limited. Of the eight most resource dependent countries in LAC,<sup>45</sup> only Peru has been declared EITI compliant and two have attained candidate status.<sup>46</sup>

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<sup>42</sup> Based on interviews and back to office report from IDB participants.

<sup>43</sup> Ref.: Gesellschaft fuer Internationale Zusammenarbeit - GIZ (2012): *Briefing to EITI Community - Working Group on Theory of Change*, Lima, Peru, July 2012.

<sup>44</sup> Bolivia, Surinam.

<sup>45</sup> Based on oil, gas and mining representing more than 10% of fiscal revenues (as of 2008): Bolivia, Chile, Colombia, Ecuador, Mexico, Peru, Trinidad & Tobago, Venezuela.

<sup>46</sup> Guatemala, Trinidad & Tobago.

The IDB's program, in line with the IDB-9 requirement, has reached out beyond this short list of participating countries to establish contacts and lay the groundwork for future support in a few additional countries, contributing to the advancement of the EITI's challenging agenda. Through its engagement with the EITI meetings and working groups, the IDB is also participating in ongoing efforts to review and revise EITI's strategy and make it more relevant and adaptive to the needs of the region.<sup>47</sup>

The early results achieved by the IDB's program are comparable to the experience of the EITI itself and the Multi-Donor Trust Fund (MDTF) administered by the World Bank, its most important source of financial support, who are also struggling with the challenge of enhancing the relevance and acceptance of the EITI. As summarized in the recent Global Program Review of the MDTF-EITI:<sup>48</sup>

*“The EITI, with support from the MDTF, is in the process of achieving its narrowly defined, specific objective of increasing transparency over payments and revenues in the extractives sector in countries heavily dependent on these resources. But promoting transparency will only bring benefits if it can be linked to higher order goals that will help resource-dependent countries to address the resource curse in a way which contributes to reducing poverty. To show that the MDTF and the EITI can contribute to achieving tangible welfare benefits, in the form of, for example, improved revenue management and reduced corruption, remains a challenge ... to provide assurance that tangible benefits will be achieved, the program needs to satisfactorily address persistent doubts about the adequacy of the program in the absence of complementary measures to improve revenue management and accountability, manage internal tensions between authority and accountability, and face up to the tradeoff between expanding the number of EITI candidates and improving results in already participating countries.”*

## CONCLUSIONS AND SUGGESTIONS GOING FORWARD

Overall, the modest early results from IDB's efforts should mainly be seen as a reflection of the challenges involved in promoting the governance and transparency objectives of the EITI, as well as the very limited extent of Bank's involvement with the extractive industries sector.<sup>49</sup> The IDB's low key approach is consistent with the primacy of country ownership for the effectiveness of the EITI, and should not be accelerated beyond the member countries' willingness to accept. The Bank's involvement with the EITI's internal strategy review and revision process can also be expected to contribute a much needed regional perspective and make it more relevant and adaptive to the needs of the region. Finally, considering that about 60 companies

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<sup>47</sup> Ref.: Gesellschaft fuer Internationale Zusammenarbeit - GIZ (2012): *Briefing to EITI Community - Working Group on Theory of Change*, Lima, Peru, July 2012.

<sup>48</sup> Independent Evaluation Group (2011): *The Multi-Donor Trust Fund for the Extractive Industries Transparency Initiative - Global Program Review, Vol. 5, Issue 1*, World Bank Group, Washington.

<sup>49</sup> Over the past decade, the only major IDB investments have been for a cluster of projects (PE-L1016, PE0222, PE0233) in support of the Camisea LNG project in Peru, the Ecuador (EC-L1040) Modernization of Pumping Stations on the Esmeraldas – Quito Multiproduct Pipeline project, and the Mexico (ME- L1051) project to Promote the Development of SME Suppliers and Contractors for the National Oil Industry.

have committed to support the EITI, including some of the world's largest oil, gas and mineral producers, the Bank's involvement with EITI could be seen as a useful instrument to expand its engagement with the sector – a promising area in light of LAC's growing role as a major supplier for global markets --. On this basis, OVE suggests that the Bank continue to respond to and support its member countries' interest in EITI participation as an important component for strengthening the countries' accountability framework and the sustainable development of their extractive industries.

**ANNEX C. GLOBAL COMPLIANCE REPORT ON ETHICS AND CONDUCT  
AND ACTION PLAN**

| Global Compliance Report       |  |  | Board & management's action plan   |
|--------------------------------|--|--|--|
| Area of intervention           | Recommendation   | Justification  |  |
| <b>Administrative Tribunal</b> | Expedite average case resolution time from 18 to around six months   | Increase the case processing effectiveness   | Update Rules of Procedures and Status of the Administrative Tribunal   |
|                                | Provide the Tribunal the ability to stay Management decisions in cases that appear to be unlawful and that would result in irreparable harm  | Enable the Tribunal to hold the Management accountable for protecting employees from unlawful treatment and ensuring that the rights of whistleblowers and the accused are respected. Also, avoid discouraging staff members from bringing cases to the Tribunal |  |
|                                | Provide the Tribunal the power to order interim relief and expand its ability to award full relief to an employee who has been treated unlawfully, including costs and attorney's fees   | Avoid discouraging staff members from bringing cases to the Tribunal. Tribunals of comparator organizations operate under similar authorities.   |  |
|                                | Reform the process of the selection of judges and their employment conditions: <ul style="list-style-type: none"> <li>• Create an independent Judicial Appointment Committee to select judicial candidates</li> <li>• Establish that judges serve for one 6-year nonrenewable term</li> <li>• Lengthen the 2-year time constraint regarding future employment with the Bank</li> </ul> | Reduce any appearance of possible conflicts of interests and thus increase the appearance of independence of the Tribunal.   | Create a Nominating Committee for Tribunal Judge Candidates  |
| <b>Grievance System</b>        | Eliminate the Conciliation Committee (CC) and replace it with a system of management review and mandatory mediation before a professional mediator. Among other reforms, provide for the possibility of a second 5-year term of the  | Provide flexibility and facilitate informal resolution; improve Management accountability and employee access to independent judicial review; and save money and time.   | Create guidelines for Mediation System and New Staff Rule (s); Define the organizational unit in charge of the Mediation |

| Global Compliance Report                    |   |  | Board & management's action plan   |
|---|---|--|--|
| Area of intervention                        | Recommendation  | Justification  |  |
|   | Ombudsperson  | Under the CC framework, the CC functions as a quasi-litigation body rather than bringing about conciliatory agreements: even if the CC sides with the employee, Management may not agree and the employee's only remedy is to continue to the Tribunal.  | System; ToR for Mediators and selection process; Transition plan for ongoing cases; Eliminate Conciliation Committee; Update references of the new system in the Org. and Adm. Manuals, Staff Rules and National Staff Regulations; and Update Ombudsperson Staff Rule and National Staff regulation |
| <b>Ethics Officer - Reporting Structure</b> | Reform the Ethics Office's report structure: it should report to the President, the Board of Directors and a newly created Confidential Board Oversight Committee rather than to the VPF. This Committee should ensure that the compliance structure is appropriate and that Management is accountable for maintaining an ethical environment | Provide the Officer with higher responsibility and establish a framework within which Management and the Board can share confidential details of Ethics Office investigations. This is consistent with best practices in comparator organizations  | Create an Ethics Oversight Committee of the Board; Update Basic Organization Manual, Bank's Organizational Chart and Ethics Officer Staff Rule   |
| <b>Ethics Committee</b>                     | Eliminate the Ethics Committee's role in misconduct investigations and recommending disciplinary action   | Deciding on whether misconduct has occurred or recommending disciplinary action are management functions that should not be delegated to staff members who are not part of senior management nor have expertise on those areas. In addition, several comparator organizations no longer use similar peer review committees | Eliminate Committee of Ethics and Professional Conduct from Organizational Manual  |

| Global Compliance Report  |  |   | Board & management's action plan  |
|---|--|---|---|
| Area of intervention  | Recommendation   | Justification   |   |
| <b>Ethics Office - Investigation Procedures, Rights, and Responsibilities</b> | Complete investigations within 90 days, institute case tracking milestones and offer an explanation for any delay.   | Ensure that each case moves on a reasonable schedule.   | Update Code of Ethics and Professional Conduct; Update Bank Policies concerning access to information in the context of investigations; and Update Procedures for the Code of Ethics and Professional Conduct |
|   | Supervisors and managers must report any misconduct to the Ethics Officer, and not just allegations of fraud or corruption.  | This is in line with requirements in comparator organizations.  |   |
|   | Clarify the role of the Staff Association in receiving reports of misconduct and make clear that the Bank cannot always promise witnesses absolute confidentiality.  | Most employees are not aware that the Staff Association does not have a duty to forward the report to the Ethics Office or other officials. There are also doubts on the circumstances under which the identity of a witness can be revealed. |   |
|   | Employees should not have a right to have an attorney or other representative present during an investigative interview.   | The Bank has the right to question its employees and need not wait for an employee to get an attorney before questioning.   |   |
|   | Include expectations regarding the Bank rights to emails and other electronic data for investigative purposes in the Ethics Code and Procedures. Also, create a process to obtain approval to review employee emails or other electronic data. | It is best practices for organization policies to clearly state employee rights and responsibilities with regard to organization property, including emails and other electronic data.  |   |
|   | Give employees accused of misconduct access to evidence necessary to defend themselves. The Information Technology Department, the Ethics Officer, the Legal Department, and the VPF need to create a protocol on how to handle requests.      | Increase the perception of transparency and fairness  |   |
|   | Adopt the UN OIOS code on administrative leave during investigation and modification of the language in the Code of Ethics Procedures  | Under certain circumstances the accused ought to be placed on administrative leave during the investigation. In addition, the   |   |

| Global Compliance Report    |  |  | Board & management's action plan   |
|-----------------------------|--|--|--|
| Area of intervention        | Recommendation   | Justification  |  |
|                             |  | Code should clarify that the Officer does not have to consult with the employee before recommending the HR Manager to put the person on leave.                           |  |
|                             | Change how conflicts of interests involving employees of the Office are handled (i.e. inform the President in addition to the VPF). The Bank should also create a protocol outlining when it is appropriate to refer matters to national authorities.                                  |  |  |
|                             | Create an Investigations Manual laying out the procedures that must be followed by any investigator of alleged misconduct. The Manual should require that all investigators be experienced in investigative techniques and trained on best practices.                                  | Promote uniformity in investigations and clarity and accountability for related professional roles. Comparators such as the UN have produced such investigation manuals. | Create Investigations Manual   |
| <b>Whistleblower Policy</b> | Provide comprehensive definitions and purpose of “whistleblower” and “witness” and clarify duty to report misconduct and reporting lines. Also, allow external reports if Bank fails to timely update whistleblower of status of matter.   | Ensure “whistleblower” and “witness” receive the full protection of the policy. Comparable language can be found in the policies of the ADB and the AfDB.                | Update Whistleblowers and Witnesses Staff Rule and National Staff Regulation |
|                             | Clarify that employees who report misconduct or participate in investigations are protected from retaliation, even if misconduct is not ultimately found. Also synchronize language in the policy with other Bank policies and procedures, particularly the Ethics Code and Procedures |  |  |

| Global Compliance Report  |  |  | Board & management's action plan   |
|---|--|--|--|
| Area of intervention  | Recommendation   | Justification  |  |
|   | Use best practices in standards of proof, including a “clear and convincing” burden on management after a prima facie case has been established by the preponderance of the evidence.                | The UN, the World Bank, the AfDB, and the ADB have followed this standard  |  |
| <b>Ethics Office –<br/>Role,<br/>Responsibilities<br/>and Functions</b> | Revise the content (better explanations, expand content) and visual layout of the Code of Ethics and Professional Conduct to tailor the content to be accessible to staff and easier to read.        | The Code does not meet best practice: there are important content pieces missing and the graphical design is below standard.                           |  |
|   | Require all staff to take annual online ethics training with additional content for supervisors.   | Online training would ensure a consistent message throughout the organization and will be cost effective.  | Update and require annual online training; Training on the Code of Ethics and Professional Conduct     |
|   | Implement a more robust case management system by contracting an external provider.  | The current database does not provide any helpful investigative features and has deficiencies in terms of access to case files.                        | Review case Management system and implement recommended enhancements                                   |
|   | Consider hiring an additional ethics investigator  | Internal investigators can carry out many investigations, and often do so more cheaply than external investigators.                                    |  |
|   | Develop a formal policy of escalating disciplinary action for failure to submit a Declaration of Interest. Also, request staff covered by the declaration of interest to file it within three months | The inclusion of a formal process has not been necessary to date due to 100% compliance, but good practices suggest that a formal policy should exist. | Require staff hired into Grade 4 or above, or have procurement responsibilities, to complete the Form. |

## ANNEX D. ETHICS AT THE IDB: EARLY STAFF PERCEPTIONS (2006-2009)

To document the presumed impact of the Bank's ethics training and other changes staff surveys were conducted in November 2006, July 2007, February 2009 and June 2009.<sup>50</sup> The results are shown in the attached table.

In general, after an initial spurt of interest and confidence in 2007, by 2009 staff's confidence in the extent to which the Bank was committed to the highest ethical standards and to an open dialogue on ethical issues had regressed to the acceptable but unimpressive level registered in the first survey (a score lower than 5 on a 1-7 scale). However, staff willingness to report violations of all kinds – from “offensive remark” all the way up to “kickbacks” – increased steadily, with the percentage willing to report violations almost doubling between 2006 and 2009. Moreover, the rating given to the effective resolution of complaints—while still below 5—rose significantly compared to 2006. It is tempting to conclude that the perception of the whole of the ethics framework and training was less than the sum of its parts, but it is equally possible that either the training memories eroded over time or that the normal perception lag was longer when applied to the institution as a whole than when specific aspects were addressed.

It is also noteworthy that the highest increase in willingness to report was in reporting violations to the Ethics Committee, more than doubling to a remarkable 84% in 2009, compared to less than 40% in 2006. Also, while the manager was identified in 2006 as the main figure to whom to turn for all types of ethics violations, subsequent surveys showed a shift to the Ethics Committee as the main channel of complaints.<sup>51</sup> The ethics training seems to have had an impact on staff awareness of the existence and role of the Ethics Committee. However, the fact that many of these reported violations consisted of “offensive remarks” is part of the problem that the formal ethics system has been clogged up with complaints that—whether major or not—should normally be handled as part of supervisors' regular duties responsibilities, or their managers.<sup>52</sup>

In any event, none of the ethics staff surveys took place before the major changes made in the ethics framework since the IDB-9 commitments. By now, sufficient time should have passed to overcome the normal lag in perception behind the reality of change.

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<sup>50</sup> *Ethical and Conduct Environment Surveys*, administered by Danielle E. Warren & William S. Laufer, Zicklin Center for Business Ethics Research, The Wharton School. The first survey was administered before the ethics training – 1,031 employees responded; the second took place after the training – 1,506 employees responded; the third was done before the distribution of the earlier survey results and was sent to half of the Bank's population -- 554 employees responded; and the fourth was administered to the other half of the Bank after the distribution of the survey results -- 600 responded.

<sup>51</sup> There was also a misunderstanding on the OII role in ethics violations: 30% mentioned OII when asked in general to whom to report ethics violations, compared to the much smaller percentages when asked to whom to report *particular* types of violations.

<sup>52</sup> Yet another potentially important finding is the mounting importance of the country representatives as recipients of ethics complaints, possibly indicating an empowerment of representatives, with implications for the assessment of decentralization.

Staff Perceptions of Ethics at the Bank – Survey Results

|   | November.<br>2006                               | July<br>2007 | February<br>2009 | June<br>2009 |      |
|---|---|--------------|------------------|--------------|------|
| Extent to which the Bank maintains commitment to the highest ethical standards? <sup>53</sup>           | 4.82  | 5.18         | 4.89             | 4.97         |      |
| Extent to which the Bank demonstrates a commitment to an open dialogue on ethical issues? <sup>54</sup> | 4.64  | 5.08         | 4.65             | 4.71         |      |
| Yes, I would report seeing the following [Code of Ethics violation] to                                  | <i>Manager</i>                                  | 12.2         | 20.2             | 25.6         | 22.8 |
|   | <i>Representative</i>                           | 7.8          | 14.8             | 13.5         | 19.2 |
|   | <i>Staff Assoc.</i>                             | 2.3          | 2.7              | 2.3          | 2    |
|   | <i>Ombudsman</i>                                | 3.3          | 7.4              | 6.5          | 7.2  |
|   | <i>HR Dept</i>                                  | 4            | 5.2              | 4.5          | 6    |
|   | <i>Secretary or Member of Ethics Committee</i>  | 10.2         | 22.9             | 30.1         | 25.5 |
|   | <i>OII</i>                                      | 6.6          | 12.5             | 9.9          | 10.7 |
|   | <i>Colleagues or Bank entities of my choice</i> | 7.8          | 9.9              | 9.4          | 8.8  |
|   | <i>Manager</i>                                  | 16.6         | 26.4             | 34.3         | 33.7 |
|   | <i>Representative</i>                           | 9.5          | 18.4             | 19.3         | 25   |
|   | <i>Staff Assoc.</i>                             | 1.6          | 2.2              | 1.1          | 1.2  |
|   | <i>Ombudsman</i>                                | 3.1          | 6.9              | 4.7          | 6    |
|   | <i>HR Dept</i>                                  | 3            | 5.4              | 4            | 4.3  |
|   | <i>Secretary or Member of Ethics Committee</i>  | 9.6          | 20.7             | 23.1         | 20.5 |
|   | <i>OII</i>                                      | 6.7          | 11.5             | 9.4          | 8    |
|   | <i>Colleagues or Bank entities of my choice</i> | 7.8          | 10.6             | 11.6         | 11   |
|   | <i>Manager</i>                                  | 21.3         | 29.7             | 41.2         | 36.7 |
|   | <i>Representative</i>                           | 11.3         | 19.4             | 20.9         | 26.3 |
|   | <i>Staff Assoc.</i>                             | 2.9          | 3.2              | 3.4          | 1.8  |
|   | <i>Ombudsman</i>                                | 4.2          | 8.4              | 8.1          | 8    |
|   | <i>HR Dept</i>                                  | 6.4          | 8.3              | 8.3          | 8.2  |
|   | <i>Secretary or Member of Ethics Committee</i>  | 15.2         | 29.3             | 37.9         | 33.5 |
|   | <i>OII</i>                                      | 15.5         | 22.4             | 24           | 20.7 |
|   | <i>Colleagues or Bank entities of my choice</i> | 7.5          | 9.9              | 8.3          | 10.7 |

<sup>53</sup> Scale of “No commitment” (1) to “Total commitment” (7)

<sup>54</sup> Idem.

|   |  |      |      |      |      |
|---|--|------|------|------|------|
|   | <b>Appoint employee's relative (in percentage)</b>                 |      |      |      |      |
|   | <i>Manager</i>   | 32.4 | 35.4 | 25.1 | 17.4 |
|   | <i>Representative</i>  | 29   | 23.5 | 21.7 | 13.6 |
|   | <i>Staff Assoc.</i>  | .8   | 2.3  | 2.6  | 1.9  |
|   | <i>Ombudsman</i>   | 6.7  | 6    | 6.7  | 3.4  |
|   | <i>HR Dept</i>   | 7    | 9    | 7.4  | 6.5  |
|   | <i>Secretary or Member of Ethics Committee</i>                     | 29.2 | 31.9 | 25.7 | 12.5 |
|   | <i>OII</i>   | 16.5 | 21.3 | 19.1 | 12.9 |
|   | <i>Colleagues or Bank entities of my choice</i>                    | 9.8  | 10.1 | 10.5 | 7.9  |
| <b>Yes, I would report seeing the following [Staff Rule 323 violation] to</b> | <b>Offensive remark (in percentage)</b>                            |      |      |      |      |
|   | <i>Supervisor</i>  | 44.7 | 44.2 | 39   | 24   |
|   | <i>Supervisor of accused employee</i>                              | 11.7 | 13.7 | 14   | 8    |
|   | <i>Ombudsperson</i>  | 9.8  | 8.1  | 11   | 4    |
|   | <i>Conduct Review Committee</i>                                    | 18.7 | 22.6 | 19   | 7    |
| <b>To seek guidance on ethics matters, you could consult the following:</b>   | <i>The Ethics Committee</i>  | 76.5 | 80.7 | 55   | 35   |
|   | <i>Manager(s)</i>  | 20.7 | 20   | 18   | 13   |
|   | <i>The Staff Association</i>                                       | 9.7  | 14.3 | 13   | 13   |
|   | <i>Ombuds-person</i>   | 30   | 29.4 | 30   | 17   |
|   | <i>Hr Dept.</i>  | 19.2 | 20.4 | 17   | 15   |
|   | <i>OII</i>   | 24   | 24.2 | 29   | 21   |
|   | <i>Other Colleagues or Bank Entities of my choice</i>              | 22.7 | 17.1 | 18   | 17   |
|   | <i>Code of Ethics</i>  | 59   | 64.3 | 61   | 40   |
| <b>You should report ethics violations to:</b>                                | <i>The Ethics Committee</i>  | 83.8 | 86.6 | 64   | 39   |
|   | <i>Ombuds-person</i>   | 22.3 | 26.2 | 18   | 9    |
|   | <i>OII</i>   | 31.2 | 33.2 | 27   | 22   |
|   | <i>None of the Above</i>   | 1    | 0.9  | 1    | 1    |
|   | <i>Would not report violation</i>                                  | 0.5  | 1.1  | -    | 1    |
|   | <i>Don't know</i>  | 5.7  | 4.3  | 3    | 5    |
| <b>Resolution of matters related to Code of Ethics<sup>55</sup></b>           | <b>Effectively handled</b>   | 4.61 | 4.56 | 4.39 | 4    |
|   | <b>Management does not influence the decisions of ethics cases</b> | 4.30 | 4.11 | 4.07 | 3.90 |
|   | <b>Identity of complainant is protected</b>                        | 4.61 | 4.47 | 4.44 | 4.22 |
|   | <b>All information kept confidential</b>                           | 4.52 | 4.39 | 4.36 | 4.03 |

Source: Ethical and Conduct Environment Survey

Note: Some questions allowed for multiple answers, and the sum of all answers is more than 100%. In other cases, categories with lower share of responses (such as *Don't Know* and *Don't Answer*) were excluded from the table and the sum of all answers is less than 100%.

<sup>55</sup>

Scale (1: Strongly disagree → 5: Strongly agree)

# **Management Comments**



**DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK**

**Mid-Term Evaluation of IDB-9 Commitments  
Background Paper: Combatting Fraud and Corruption  
Management Comments**

**Mid-Term Evaluation of IDB-9 Commitments**  
**Background Paper: Combatting Fraud and Corruption**  
**Management Comments**

**I. INTRODUCTION**

- 1.1 Management welcomes this evaluation of the implementation of the measures taken by the Bank to prevent corruption in its projects and foster staff integrity under its new fraud and corruption agenda. The findings and conclusions presented in this background paper will contribute to the Bank's efforts in this regard.
- 1.2 Management is pleased to see that many of the comments shared with the Office of Oversight and Evaluation (OVE) on an earlier draft of the paper were incorporated in this final version.

**II. OVERALL FINDINGS AND SUGGESTIONS**

- 2.1 Management appreciates OVE's acknowledgement of the significant steps taken by the Bank in recent years to reinforce the three strategic pillars of the fraud and corruption agenda: (i) preventing fraud and corruption in Bank-financed activities; (ii) promoting good governance and integrity in the Region; and (iii) fostering staff integrity.
- 2.2 Management welcomes the evaluation's overarching finding that the new structure adopted by the Bank to prevent corruption and foster integrity represents a major improvement over the previous one. We also take note of OVE's conclusion that several actions have been taken in the first and third pillars, while the Bank's contribution to the countries' anticorruption efforts under the second pillar may not be as visible because its operations in this thematic area tend to be underreported.
- 2.3 **First Pillar.** Management concurs with OVE's conclusions that the priority for the first pillar is to consolidate the actions taken so far, and that the effectiveness of the new sanction system can only be evidenced over time. While we consider OVE's suggestions as they pertain to this pillar to be particularly useful, we would like to clarify the following points:
  - i. Management agrees with the need to select the new head of the Office of Institutional Integrity (OII) and to update the terms of reference of the position. To this effect, a Selection Panel was appointed in September 2012. The Panel presented the terms of reference for the position of Chief of OII to the Audit Committee on January 10, 2013. A revised version of the terms of reference is under preparation for resubmission to the Committee. A search firm should be selected in January, and the competitive process announced in February, with the goal of having a selected candidate by mid-year;
  - ii. Management also agrees with OVE's statement that the OII should achieve greater efficiency, "as an arm of Management". OII's independence should not lead to its isolation, and to that effect, Management will take steps to ensure that

the OII continues to work closely with the other members of the Sanctions System (Anticorruption Policy Committee, Sanctions Committee, and Case Officer) and increases its collaboration with the operational departments of the Bank. Management will continue to ensure that this enhanced communication and cross-collaboration does not interfere with OII's independence to carry its investigations. To that end, Management will continue its efforts to disseminate information and raise awareness about the Bank's support to OII's mission. Management considers that frequent reporting to the President on OII's day-to-day activities is not desirable, however, it will also make sure that OII continues to have access to the President to address any issues;

- iii. Management is also looking forward to adopting a protocol for case settlement, as suggested by OVE. Indeed, Management has already taken some preliminary steps towards defining clear rules as to when and how to settle cases. We support OVE's view that multiple units should be involved in the process. However, we believe that, because OII would be a provider and an end user of the information/evidence involved in settlement negotiations, it should continue to play a fundamental role, albeit with due care in dealing with actual or perceived conflicts of interests;
- iv. Furthermore, Management also recognizes that it is important to differentiate between OII's investigative and preventive functions by having a separate internal organization for each. Nevertheless, we do not find it necessary to "create a hard boundary between the two" and to "relegate prevention to a secondary function" as suggested by OVE. Management believes in a better balance between the two mandates to encourage cross-fertilization and more effective use of the lessons learned from investigations to enhance new operations and avoid the recurrence of prohibited practices; and
- v. Finally, regarding OVE's suggestion to "centralize" responsibility for sanctions dissemination and publication, Management will explore alternatives to gain efficiencies, within the context of the Agreement for the Mutual Recognition of Debarment Decisions and with the designated liaison units.

2.4 **Second Pillar.** Management supports OVE's assessment that the Bank's current level of effort to improve public integrity in member countries is systematically underestimated as its database does not include a thematic breakdown of project objectives and activities to capture the range of interventions that fall under the anticorruption umbrella. Management would like to bring some clarification to the following points raised in the evaluation:

- i. Management appreciates the paper's conclusion about the soundness of the "targeted transparency" approach to governance and anticorruption adopted by the Institutional Capacity of the State Division (ICS). We also believe in the possibility of a "significant positive impact" in the near future by pursuing this approach vigorously and with more resources;

- ii. Management considers that the paper's findings could have benefited from a review of country demand for Bank intervention in this area (as reflected in Country Strategies and for specific loans and grants). In that regard, Management would like to note that the number of operations approved in the area of transparency and accountability (T&A) has nearly doubled from 12 in 2007-2009 to 22 in 2010-2012. The pipeline for 2012-2013 already includes six operations totaling US\$48.0 million in loans and US\$3.8 million in TCs. Management looks forward to working with the Board to increase the resources available for the work of T&A;
- iii.
- iv. As for the need to ensure greater visibility of the Bank's work at the country level and better linkages among the units concerned with this work, ICS is already working together with the Department of Research and Chief Economist (RES), the Office of Institutional Integrity (OII), the Case Officer, the Office of the Auditor General (AUG), the Infrastructure and Environment Sector (INE), and other divisions within the Institutions for Development Sector (IFD). Likewise, efforts to enhance regional dialogue and collaboration with key partners such as the International Organization of Supreme Audit Institutions (INTOSAI), the Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFs), among others, are ongoing.

2.5 **Third Pillar.** Management appreciates OVE's acknowledgement of the advances made in implementing the recommendations made by Global Compliance and approved by the IDB's Board of Executive Directors. Management considers OVE's findings and suggestions to be useful, and especially those related to: i) the need for supervisor training; ii) the disciplinary powers of supervisors; and iii) the Bank's ethics and grievance systems. Management welcomes the paper's primary conclusion that going forward, the priority is "to consolidate the actions taken", while complementary measures on personnel management would further strengthen the functioning of the Bank's internal integrity system. While Management values the insights provided by the review, it would like to provide some clarification regarding the following areas raised in the evaluation:

- i. Regarding the needs to **assess staff attitudes**, Management believes that the Bank should have the opportunity to consolidate and implement the key changes discussed in the report before engaging in another staff survey of this kind. Management recognizes that it will be important to evaluate the strengths and weaknesses of the new systems being implemented, and recommends that it

be at least two years from the effective date of the implementation of the new mediation system which goes into effect on April 1, 2013;

ii.

iii. As for **Management's performance** in addressing staff complaints and taking disciplinary actions, when warranted, Management supports OVE's position that new policies and tools are needed to enhance employee relations and conflict resolution. These new policies should help to better define the disciplinary powers of supervisors, improve their performance, and increase understanding by staff members. As for the effectiveness of the channels for conflict resolution, Management recognizes that the labor relations and conflict resolution system encourages staff to consider seeking resolution to workplace conflicts via the Bank's informal channels described above, before pursuing their grievances through the formal system. Future learning programs contemplated by Management will aim at enabling supervisors and HR Business Partners to further develop competencies and skills in conflict resolution in the workplace.

iv. The actions currently considered by Management, along with the changes that are being implemented as a result of the Global Compliance Report, should address many of the issues raised by the background paper. As such, Management believes an external review at this stage, as proposed by OVE, would be more useful if carried out once all actions have been executed;

### **III. LOOKING FORWARD**

3.1 The background paper provides good insights into the range of actions taken by the Bank under the three pillars of its strategic agenda to prevent corruption and promote integrity in its programs and among its staff. The Bank holds itself to high standards of institutional integrity. To that end, Management will continue to work and build on the lessons learned in the past years to ensure that the systems in place are effective and consistent with the Bank's transparency and accountability objectives.

## ANNEX I: FACTUAL CORRECTIONS

### 1.1 Pillar 2

- i. Paragraph 3.26. Both internal and external controls remain within ICS, and not only external audit as highlighted in this paragraph.
- ii. Annex B, pages 2-4. Please note that:
  - a. Some outreach activities in Guatemala and Paraguay were undertaken previous to the establishment of the regional facility (paragraph 1.4, 2.b and 2.c)
  - b. Two EITI Board events were attended using the resources of the technical facility (paragraph 1.5, 1.b and 1 c)
  - c. Technical notes were prepared for internal specialists and teams preparing projects in Bolivia, Guyana and Suriname (paragraph 1.4, 1)
  - d. To date, the Bank has received formal requests for assistance on EITI from the Governments of Peru and Trinidad & Tobago. Other requests from LAC countries (e.g. Guatemala, Guyana, Colombia, Honduras, Suriname) to increase their knowledge on EITI were received by the IDB via the International EITI Secretariat (paragraph 1.6)

### 2.1 Pillar 3

- i. Paragraph 3.61. There is a mention to the rule on staff conduct as being “old”. Please note that this staff rule ceased to exist in 2007 with the approval of the Code of Ethics and Professional Conduct.