

# **Inter-American Development Bank**

## **Oversight Committee on Fraud and Corruption**

### **First Semi-Annual Report**

This is the first report of the Oversight Committee on Fraud and Corruption. It is issued in compliance with the provision of the Rules of Operations of the Secretariat of the Oversight Committee on Fraud and Corruption (OCFC) <sup>1</sup>. The report summarizes the major activities undertaken by the (OCFC) between April 2002 and March 2003 and provides a comprehensive summary of the state of investigations conducted by the Inter-American Development Bank (the “Bank”).

In February 2001, the Board of the Executive Directors approved document GN-2117-2 “Strengthening a Systemic Framework Against Corruption for the Inter-American Development Bank”. As a major step in implementing the Framework, in March 2001, the Bank created the Oversight Committee on Fraud and Corruption to (i) oversee all allegations of fraud and corruption, in connection with any Bank or IIC activities or operations; (ii) to oversee the investigations; (iii) to impose appropriate sanctions and oversee their implementation; and (iv) to determine when matters need to be referred to national authorities for civil or criminal prosecution.

The OCFC is composed of four members of senior management of the Bank and reports directly to the President. It is chaired by the Executive Vice-President. The other members are the Vice President for Planning and Administration, the General Counsel and the Auditor General. The basic document that governs the OCFC, the “Operating Guidelines and Regulations for the Oversight Committee on Fraud and Corruption” was approved during the year 2002. In October 2001, the President created the Secretariat of

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<sup>1</sup> Paragraph 108 of the Rules of Operation requires that a semi-annual report be prepared by the Secretariat and be made generally available. The semi-annual reports are due within 15 days of September 30 and March 31 of each year. Since this is the first such report, it covers the period from April 1, 2002 to March 31 2003. April 1, 2002 is the date on which the Secretariat became operational.

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the OCFC (the Secretariat), which is the executive arm of the OCFC and began its operations in 2002. Among other functions, the Secretariat receives and classifies all allegations of fraud and corruption and supports the OCFC in monitoring the investigations.

Throughout 2002, the Secretariat focused considerable attention on promoting and disseminating the new Bank policies related to fraud and corruption. An important element for the success of the new policies is to enlist support and help from Bank staff. In addition, it is also relevant to the success of the Bank initiatives in the fight against fraud and corruption that its policies be broadly disseminated and known to the public in general and to people who work in Bank projects in particular. As part of the Secretariat's ongoing effort to disseminate information on the work of the OCFC, a number of presentations were conducted in Headquarters and in Country Offices for Bank staff. Furthermore, new mechanisms for external publicity, such as a new website, were developed and launched.

After the Secretariat began its operations, and as a result of the efforts and emphasis placed on "getting the message out", the number of allegations received by the Secretariat has steadily increased. As the Secretariat continues its labors, and new efforts at dissemination are in place, it is expected that the number of allegations will continue to increase.

The methods and mechanisms available to the public, not only for obtaining information about the OCFC, but also, and most importantly, to report fraud and corruption, are another important element in the success of the new policies. The mechanisms offer different alternatives to file reports of fraud and corruption. They were developed so as to reach as many people as possible in the region and to be user friendly, so complaints can be filed easily. The mechanisms to report fraud and corruption created by the OCFC are managed by the Secretariat. They are:

- A toll free telephone number (hotline) available from all member countries.

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- A telephone extension number within the Bank.
- A secure e-mail address outside of the firewall of the Bank that can only be accessed by the staff of the Secretariat.
- A secure facsimile.
- A regular mail address.
- A new website that provides another secure and confidential mechanism to report fraud and corruption and provides information to the general public, as well as to the staff of the Bank.

### **Summary of the allegations received during the period from April 1, 2002 to March 31, 2003.**

The Secretariat, since it began its operations, has received a total of 71 allegations<sup>2</sup>. The Secretariat classifies the allegations in accordance with the definitions provided by the Operating Guidelines and Regulations for the Oversight Committee on Fraud and Corruption. When allegations are first received, they are analyzed to determine whether they relate to fraud and corruption or to some other matter. If they relate to fraud and corruption, and they appear credible, they are sent to the Auditor General's Department, which is responsible for determining if an investigation should be initiated and for conducting any investigation that is required. Once the investigation is completed, the report of the investigation is submitted to the OCFC for decision.

If the analysis determines that the allegations refer to other issues, such as legal or ethical concerns, they are referred to the proper authority for consideration. In most cases the Secretariat follows up on the actions of those bodies to ensure that all the allegations are dealt with and appropriate remedial measures are taken. In some cases, the allegations are just general statements or complaints about corruption in a given country without any

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reference to a specific action. In other cases, allegations do not refer to a Bank or IIC activity or operation or to a Bank or IIC employee, but refer instead to other activities in those countries over which the Bank does not have any jurisdiction.

The 71 allegations received by the Secretariat during the reported period were classified as follows:

<b>Fraud</b>	<b>15</b>
<b>Corruption</b>	<b>10</b>
<b>Bribery</b>	<b>9</b>
<b>Conflict of interest</b>	<b>8</b>
<b>Misuse of funds</b>	<b>7</b>
<b>Procurement issues</b>	<b>6</b>
<b>Legal issues</b>	<b>5</b>
<b>Ethics issues</b>	<b>3</b>
<b>Collusion</b>	<b>2</b>
<b>Embezzlement</b>	<b>2</b>
<b>Other issues</b>	<b>4</b>

23 allegations have been resolved without investigation (“resolved” indicates allegations for which a solution has been reached without a formal investigation, for example, legal matters, procurement matters, etc).

During this reporting period, the Auditor General Department has initiated a total of 37 investigations.

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<sup>2</sup> Note that 15 of those allegations were transferred from AUG when the Secretariat began its operations.

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The Auditor General has completed 18 investigations, the OCFC has closed three cases and six cases are pending final disposition by the OCFC. The other nine cases will be submitted to the OCFC once the appropriate closing reports have been completed.

A majority of the allegations, a total of 45, have originally been presented by sources other than Country Offices or Bank Departments. Of those 45, 33 have been sent directly to the Secretariat. The rest have been presented to other departments of the Bank, mostly Country Offices which, in compliance with Bank regulations, forwarded the allegation to the Secretariat. The majority of the allegations referred to actions that involve fraudulent acts in Executing Agencies.

A total of 12 allegations related to activities involving Bank staff, either at Headquarters or in the member countries. Of that total, three were ethics cases and were referred to the Ethics Committee, one allegation was not pursued because of lack of credibility, two allegations resulted in employees being dismissed, one employee reimbursed the Bank the funds that had been misused, in one case one or more employees were found to have been negligent, and one case has been referred to the national legal authorities.

The Secretariat has received 13 anonymous allegations. Six of those allegations resulted in investigations of fraud and corruption. In two of those investigations, the allegations could not be substantiated. Four investigations are continuing.

While the Secretariat has received allegations from almost all countries in the Region, projects in Argentina, Bolivia, Colombia and Paraguay have been the subject of the largest number of allegations.

**For more information about the OCFC and the work of the IDB in combating corruption please visit:**

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**[www.iadb.org/ocfc](http://www.iadb.org/ocfc)**