



**The Inter-American
Development Bank**

2004 Annual Report

**On Building Awareness,
Investigating Allegations,
and Taking Action
against Corrupt Practices**

**Office of
Institutional Integrity**
<http://www.iadb.org/oii>

The Inter-American Development Bank (IDB) is the oldest and largest regional multilateral development institution. Established in 1959, IDB's mission is to help accelerate economic and social development in Latin America and the Caribbean. Today, 47 nations are members of the Bank, including 26 Latin American and Caribbean countries, the United States, Canada, and 19 non-regional countries.

The Bank has become a major catalyst in mobilizing resources for the region. Its principal functions are to utilize its own capital, funds raised in financial markets, and other available resources to finance the development of its borrowing member countries; to supplement private investment when private capital is not available on reasonable terms and conditions; and to provide technical assistance for the preparation, financing, and implementation of development projects.

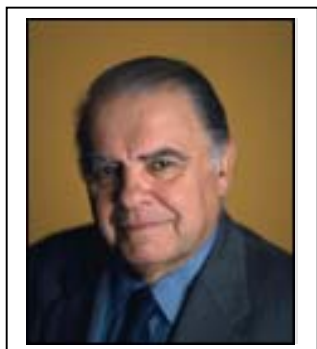
As of December 31, 2004, the Bank had approved over \$136 billion in loans and guarantees to finance projects with investments totaling \$307 billion, as well as \$2 billion in grants and contingent-recovery technical cooperation financing.

The **Office of Institutional Integrity (OII)** began operations in January 2004. OII is the central body responsible for the Bank's internal anticorruption and integrity program. Its goals are to build widespread awareness of the rules and procedures of integrity programs; investigate credible allegations of fraud, corruption, and misconduct in Bank-financed activities; and ensure that action is taken wherever fraud, corruption, or misconduct is discovered or can be prevented. This first annual report describes OII's first full year of activity.

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IDB President Enrique V. Iglesias.

A Message from the President of IDB

Corrupt behavior poses one of the gravest threats to the success of economic and social development in Latin America and the Caribbean and, therefore, to the mission of the Inter-American Development Bank. In all of its many forms, corruption drains our institutions and undermines the economic foundation of sustainable growth. Corruption distorts the very rule of law, and it threatens our commitment to building democratic, prosperous, and equitable societies.

Whether in our lending or in our own house, we must be vigilant to root out corruption. There can be no looking the other way.

Supporting Good Governance

The adage, “prevention is better than cure,” aptly applies to corruption. Accordingly, IDB’s most powerful weapon is lending operations and technical assistance that support good governance. The Bank invests 15 to 20 percent of its resources annually in modernization of the state, transparency, and improving accountability of public-sector institutions. In every borrowing country, we have strongly supported the kinds of good governance activities that serve as the bulwarks against corruption:

- Strengthening capacity in public financial management
- Enhancing transparency in public expenditure
- Strengthening regulatory agencies
- Improving public access to legislators, including through information technology
- Reforming judiciaries and increased access to judicial systems
- Strengthening recognition of property rights
- Modernizing electoral systems
- Promoting professional career civil service.

In 2004 the Bank’s loans for modernization of the state amounted to \$884 million out of a total portfolio of \$6 billion. This, we believe, is the heart of the preventative approach that leads our long-term effort to combat corruption.

In the nearer term, IDB is also strongly supportive of member countries' efforts to counter money-laundering activities. Regional technical-cooperation operations are currently under way to strengthen financial intelligence units and train national personnel. We also actively participate in global and subregional initiatives to counter the financing of terrorism. In these activities, we are engaged in active partnerships with the Organization of American States, the United Nations, the World Bank, as well as specialized agencies, member governments, and nongovernmental organizations.

The Office of Institutional Integrity

In 2003, the Bank established an independent Office of Institutional Integrity (OII), housed in the Office of the President. The creation of OII represents an important milestone in strengthening institutional capacity to maintain the highest standards of conduct, both in the projects that we finance and the day-to-day operations of our institution.

OII began operations in the first quarter of 2004. The new office has moved from planning to concrete actions—a challenging, busy, and highly productive first year. The OII is to be commended for its strong beginning.

— Enrique V. Iglesias, President
Inter-American Development Bank
March 2005

1. The Inter-American Development Bank Framework for Addressing Corruption

What Corruption Costs

The Inter-American Development Bank defines corruption as acts that are performed by officials who use their position wrongfully to obtain benefit for themselves or for others. According to Dieter Frisch, former director-general of development at the European Commission, bribery of government officials adds 10 to 20 percent to the total cost of procurement contracts. With governments around the world spending some \$4 trillion annually for goods and services, this amounts to lost public investment of at least \$400 billion per year. Indeed, according to the World Bank, perhaps a trillion dollars is wasted each year in bribery alone—an amount sufficient to run 40 global campaigns that could reverse the spread of HIV/AIDS.

In Latin America and the Caribbean, the impact of corruption goes deeper than its financial costs. Corruption contributes to undermining basic trust in public institutions. According to *Latinobarómetro*, a public opinion survey conducted annually in 18 countries, Latin Americans' mistrust of public institutions is among the highest in the world. Without fundamental trust—confidence that public institutions will provide legitimate and efficient governance—societies are poorly equipped to tackle the many other obstacles that impede sustainable, equitable development.

Taking on the Challenge in Latin America and the Caribbean

“The Inter-American Convention against Corruption” and “The Follow-Up Mechanism” can be downloaded from <http://www.oas.org/juridico/english/FightCur.html>

The Summit of the Americas created a favorable political climate for a hemispheric approach to combating corruption. In 1996, working under the aegis of the Organization of American States, countries of the hemisphere created the first regional convention designed specifically to counter corruption—the Inter-American Convention against Corruption. This commitment has been strengthened. Under a follow-up mechanism, a committee of experts and a peer-review process analyze the effectiveness of signatories' implementation. Findings are published as individual country reports. Concrete recommendations are made to improve each country's application of the Convention, highlighting areas where cooperation and technical assistance could help. By December 2004, reports had been issued for 12 countries.

The Role of the IDB

In February 2001, the IDB Board of Executive Directors approved “Strengthening a Systemic Framework against Corruption for the Inter-American Development Bank.” The framework guided the Bank in three closely linked areas:

Ensuring that Bank staff act in accordance with the highest levels of integrity and that internal policies and procedures support this goal.

Many policies and procedures are in place to ensure that Bank staff act according to the highest levels of integrity. The *Code of Ethics* lays out guidelines for the institution’s staff and procedures to be followed when allegations of unethical behavior are made. Pursuant to the code, a permanent interdepartmental Ethics Committee was established to review allegations and to make certain that the code is consistently respected and uniformly applied. The Bank also developed the *Respect in the Workplace* Policy. A Conduct Review Committee is charged with responsibility for responding to allegations of wrongful discrimination, harassment, or reprisal. In addition, Bank employees have recourse to the Bank’s Ombudsman, the Conciliation Committee, and the Administrative Tribunal.

Ensuring that activities financed by the Bank are free of fraud and corruption and executed in a proper control environment.

The Bank has made major strides in fighting malfeasance, through the creation of the Oversight Committee on Fraud and Corruption and, in 2004, the Office of Institutional Integrity. New procurement policies were also implemented in 2004.

Supporting programs that will help borrowing member countries strengthen good governance, enforce the rule of law, and combat corruption.

The Bank’s comprehensive approach to supporting good governance and rule of law throughout the region includes major financial support and technical assistance for a broad range of good-governance reforms, including projects involving government accountability and transparency and reform of the state. As OII’s capabilities mature, the results of its investigations and learning will be used to develop preventative programs that assist both lending programs and member countries to develop better governance programs and rule-of-law projects.

The Inter-American Development Bank has played an active role in the hemispheric as well as the global effort to combat corruption—for example, in 2004, IDB and the World Bank co-hosted a meeting in Washington of regional development banks. Participants issued a joint statement reaffirming their commitment to fight corruption by guaranteeing protection for whistleblowers.

Creation of the Oversight Committee on Fraud and Corruption

Prior to the creation of the Office of Institutional Integrity, allegations of fraud or corruption were investigated by the Office of the Auditor General. In March 2001, the

To download “Strengthening a Systemic Framework against Corruption for the Inter-American Development Bank,” see

<http://www.iadb.org/leg/Documents/Pdf/Corruption-EN.pdf>

To download the Bank’s *Code of Ethics*, see

<http://www.iadb.org/leg/Documents/Pdf/EthicsCode-Eng.pdf>

To download *Respect in the Workplace*, see

http://www.iadb.org/ocfc/323_eng.htm

For information on the joint statement in protection of whistleblowers, see http://www.iadb.org/oii/joint_statement.cfm?language=English

Bank created the Oversight Committee on Fraud and Corruption (OCFC) to provide critical monitoring and review in order to prevent, detect, and deal with fraud and corruption. The function of the OCFC is to oversee investigations of alleged fraud and corruption and to implement recommendations arising from these investigations. It also recommends cases to the President of IDB that should be forwarded to national authorities. A secretariat for the OCFC was tasked with receiving and classifying all allegations as well as monitoring investigations. The Secretariat began operations in April 2002, housed within the Office of the Auditor General. In September 2002, the Secretariat introduced methods by which staff and persons outside the Bank could submit allegations, including a Web site, secure e-mail, and a toll-free telephone line that can be accessed from any member country.

The Office of Institutional Integrity

Creation and role of the Office of Institutional Integrity (OII)

As the OCFC and its secretariat became more widely known, the number of allegations concerning possible fraud and corruption began to rise. Moreover, the need for an independent office to conduct investigations became apparent. On October 15, 2003, the President of the IDB formally established the Office of Institutional Integrity. OII was set up within the President's office and serves as the Bank's focal point for all matters related to integrity in staff behavior and in operations.

With the launch of operations during the first quarter of 2004, OII developed a three-pronged strategy to accomplish its mission. First, it promotes awareness and educates staff of their responsibilities, and it provides them with the tools necessary to support the Bank's anticorruption program. Second, it has expanded and enhanced detection and investigation responsibilities. Third, effective investigation must be paired with systematic improvement in policies, means of enforcement, and preventive strategies. As 2004 came to a close, OII began planning a proactive program of prevention. The program will leverage analysis of anecdotal investigative results. Through lessons learned from the investigative process, new measures can be devised to prevent the recurrence of fraudulent and corrupt practices.

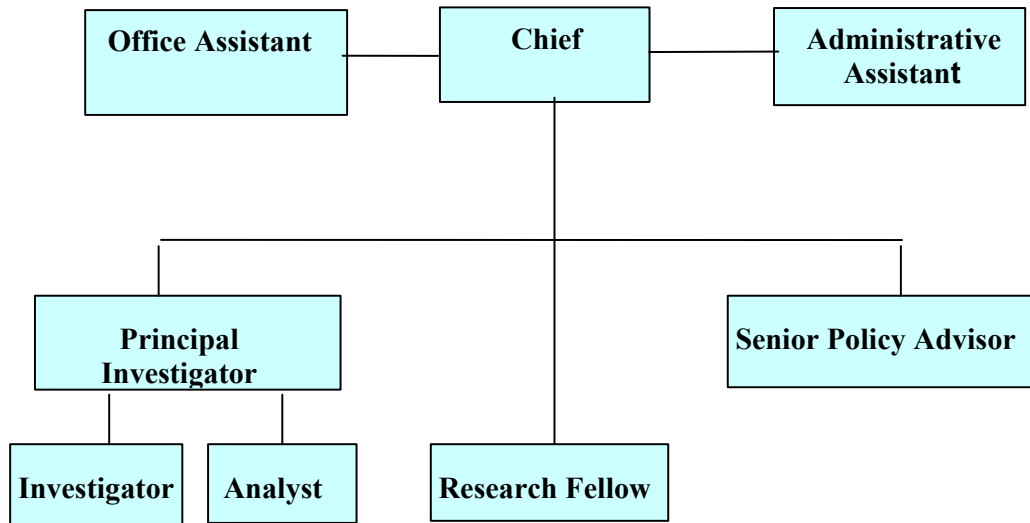
Personnel

The staff of the Secretariat for the Oversight Committee on Fraud and Corruption was moved to OII in early 2004. Stephen Zimmermann was named chief of OII. A former United States federal prosecutor, Mr. Zimmermann was previously senior policy officer and senior counsel to the World Bank's Department of Institutional Integrity. As head of OII, he serves as the secretary to the OCFC and reports directly to the President of the Bank. In the fourth quarter of 2004, it was agreed that he would also provide periodic reports to the newly established Audit Committee of the Board of Executive Directors.

The investigative and analytical work conducted by OII requires a special mix of skills and backgrounds. OII's existing staff of three underwent a period of transition during 2004, taking on new responsibilities for coordinating and conducting investigations. Throughout 2004, OII worked to recruit personnel and build capacity so that the staff has the necessary professional training, investigative expertise, language skills, and practical experience to meet OII's expanding responsibilities.

In May 2004, capabilities were enhanced with the arrival of the first investigator. In November 2004, a senior policy officer joined OII and took a lead role in finalizing the Bank's revised Code of Ethics. He will also be responsible for developing an expanded prevention program. A research fellow joined the staff full-time to help meet the increasing demand for investigative and analytical support. Several administrative and professional consultants were retained to help meet short-term needs. Figure 1 shows the organization of the office as of December 31, 2004.

Figure 1
Organizational Chart: Office of Institutional Integrity



The OII staff is expected to grow in 2005. A second investigator will join the office early in the year, and the vacant administrative position will be filled by the end of the second quarter. The Board of Executive Directors has authorized two staff positions to be filled toward the end of the year.

Budget

Fiscal year 2004 marked the first budget year for OII. As shown in Table 1, the initial budget for 2004 was \$996,000, with a later supplement received of \$100,000. For 2005, the budget will be \$1,504,000, a 37 percent increase over 2004.

Table 1
Budget for the Office of Institutional Integrity

	FY 2004	FY 2005
Base	\$996,000	\$1,504,000
Supplement	\$100,000	—
Total	\$1,096,000	\$1,504,000

Use of Sanctions

In September 2004, Bank management approved the creation of a Sanctions Committee, including procedures to be applied, subject to the Board of Executive Directors' action on certain implementing measures. Upon the recommendation of the OCFC, OII will present investigative findings of fraudulent or corrupt practices in Bank-financed activities to the committee. The committee will determine what, if any, sanctions should be imposed. Both OII and concerned parties will be able to present written submissions to the committee. Sanctions on firms or individuals might range from a reprimand to permanent debarment from Bank-financed contracts.

Audit Committee of the Board of Executive Directors

In September 2004, the Board of Executive Directors formally established an Audit Committee. The committee will periodically meet with the chief of OII to discuss significant activities and outcomes pertaining to fraud or corruption. OII will also work with the committee to review the adequacy of the system for monitoring compliance with Bank policies and procedures on matters dealing with fraud and corruption, including procedures to protect confidentiality of complaints.

2. Building Awareness through Education and Outreach

The Office of Institutional Integrity has launched an ambitious outreach and learning program to provide staff and external partners with better understanding of the Bank's anticorruption and integrity programs. Building awareness was a key goal for 2004.

Enhanced Web Site

In 2003, the Secretariat to the OCFC launched a Web site that provided information on how to report allegations of fraud and corruption. OII implemented the first phase to an update of the site in 2004 (see Figure 2). New pages have been developed to explain the mission, functions, and role of OII. In addition, the site provides links to information on the OCFC, the Ethics Committee, and the Conduct Review Committee.

Participation in Procurement Training

For most-recent procurement regulations, see <http://condc05.iadb.org/idbppi/asp/ppProcurement.aspx?pLanguage=ENG LISH>

Most fraud and corruption allegations are related to the procurement of goods and services. This creates a significant link between the work of OII and the implementation and supervision of the procurement process in Bank-financed projects. As a result, OII has prioritized procurement training for Bank staff. In consultation with the Bank's procurement division, a training module regarding OII's role was developed. It details the mission and functions of OII, including when and how to report allegations or concerns of fraud or corruption. It provides case studies, "red flags" that could signal corruption, and discussion on how sector specialists and other Bank staff can help to detect, investigate, and prevent fraud and corruption. This information will be included as part of the procurement training that is to be provided for Bank staff. During 2004, OII's chief and principal investigator presented the training module in the Dominican Republic, Argentina, Brazil, and El Salvador. OII made similar training presentations for sector and financial specialists in Chile, Mexico, and Miami.

Figure 2
The Office of Institutional Integrity Home Page: www.iadb.org/oii

The screenshot shows the web page for the Office of Institutional Integrity (OII) of the Inter-American Development Bank (IDB). The page has a yellow header with the IDB logo and navigation links. Below the header is a dark blue banner with the text "Office of Institutional Integrity (OII)". The main content area is white and contains a sidebar with a list of links and a main text area with the title "About the OII". The sidebar links include: Office of Institutional Integrity, Oversight Committee on Fraud and Corruption, Ethics Committee, Conduct Review Committee, Allegations Form, and Employment opportunities. The main text area contains several paragraphs about the OII's mission, its role in promoting institutional integrity, and its relationship with the IDB. The footer of the page includes a small IDB logo and the text "© 2005 Inter-American Development Bank. All rights reserved. Terms and Conditions".

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- Oversight Committee on Fraud and Corruption
- Ethics Committee
- Conduct Review Committee
- Allegations Form
- Employment opportunities

About the OII

Promoting Institutional Integrity

Corruption, fraud, and lack of integrity undermine economic and social development, and represent one of the greatest dangers to the effectiveness of the Inter-American Development Bank's (IDB) development efforts.

The Bank is comprehensively addressing these issues by fostering an ethical work environment for its staff, and by taking steps to safeguard the activities financed by the Bank from the corrosive effect of fraud and corruption. In 2001, the Board of Executive Directors approved a [Systemic Framework against Corruption for the Bank](#).

In December 2004, after a meeting at IDB headquarters in Washington, D.C., the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the World Bank, and the IDB issued a [joint statement](#) reaffirming their commitment to fight against corruption and for whistleblower's protection.

The IDB has also created the Office of Institutional Integrity (OII), which is the central unit responsible for promoting institutional integrity at the Bank. It does so through education and training, as well as through the detection, investigation, and prevention of fraud, waste, abuse, and misconduct.

OII is an independent unit within the Bank, whose Chief reports directly to the President. It is staffed with experienced lawyers, accountants, and analysts.

OII is responsible for receiving and investigating allegations of corrupt or fraudulent activities or unethical behavior involving Bank-financed activities or Bank staff. [Allegations](#) may be reported to OII in person, by [telephone](#), by [e-mail](#), by [facsimile](#), by regular [mail](#), or through the allegations forms on this Web site, [anonymously](#) or [identifying yourself](#).

The Bank has a staff rule that provides [protection for whistleblowers and witnesses](#). This staff rule strictly prohibits retaliation against our staff member for reporting an allegation of fraud or corruption or a violation of a law or rule or regulation of the Bank. Moreover, requests for confidentiality or anonymity when presenting an allegation will be honored. OII staff is also available to provide counseling on matters related to these issues.

OII reports its investigative findings to one of the three appropriate committees within the Bank related to these issues. Findings by OII related to fraud or corruption are reported to the [Oversight Committee on Fraud and Corruption \(OCFC\)](#). Findings related to the ethical conduct of staff are reported to the [Ethics Committee](#). Findings related to harassment and discrimination are reported to the [Conduct Review Committee \(CRC\)](#).

OII also serves as the Secretariat for these three committees, and is responsible for ensuring that lessons learned from investigations are disseminated and acted upon.

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Meetings with IDB Staff

Because of the sensitivity and importance of the Bank's integrity program, all Bank staff must be made aware of what is expected of them and how OII operates. The chief of OII and senior staff made presentations to many country offices in 2004, including Peru, Ecuador, Argentina, Bolivia, El Salvador, Honduras, and Mexico.

OII met with country representatives during their semiannual meetings in Washington, providing an opportunity to brief senior staff on the newly established office and to discuss trends and issues that have arisen during investigations. Similar discussions were held with the deputy representatives during their fall meeting in Washington. The chief of OII also made presentations and held discussions with each of the Bank's three regional management teams.

For staff rule for "Protection of Whistleblowers and Witnesses," see http://www.iadb.org/ocfc/328_eng.htm

OII staff now participates in orientation for new employees joining the Bank. Presentations include an overview of the Bank's anticorruption program and the role of staff in detecting and preventing fraud and corruption in Bank-financed activities.

Other Outreach and Communication Efforts

OII senior staff have participated in a broad effort to improve international anticorruption programs, including the International Consortium on Governmental Financial Management; the American Bar Association's meeting on white-collar crime; and OECD's Global Forum on Governance, Fighting Corruption, and Promoting Integrity in Public Procurement. In addition, OII's chief was seconded to the United Nations to serve as the acting chief of staff for the Independent Inquiry Committee's investigation into the UN Oil for Food Program for Iraq.

OII's chief and its principal investigator also attended and spoke at the Fifth Annual International Investigators Conference of the Multilateral Development Banks and United Nations Organizations, held in Lyon, France. The chief of OII serves on the secretariat for the annual conference, and the IDB was selected to host the upcoming sixth conference. In December 2004, the senior policy advisor of OII participated in the 11th meeting of the *Red Centroamericana para la Descentralización y Fortalecimiento Municipal* (known as FEMICA).

OII has also taken a leading role in improving communications and sharing best practices among integrity offices of other multilateral development banks. In December 2004, OII co-hosted the first meeting of representatives of the five largest multilateral development banks. Held on the first anniversary of the ratification of the United Nations Convention against Corruption, this meeting produced a joint statement reaffirming their shared commitment to fight corruption and to support whistleblower protection.

3. Investigating Allegations

What Constitutes “Corrupt Practices” or “Misconduct”?

In its recently updated procurement guidelines (2004), IDB defines and distinguishes among four kinds of corrupt practices.

Bribery. Offering or giving of anything of value to influence the actions or decisions of third parties, or the receiving or soliciting of any benefit in exchange for actions or omissions related to the performance of duties.

Extortion (or coercion). The act of obtaining something, compelling an action, or influencing a decision through intimidation, threat, or the use of force, where potential or actual injury may befall upon a person, his/her reputation or property.

Fraud. Any action or omission intended to misrepresent the truth to induce others to act in reliance thereof, with the purpose of obtaining some unjust advantage or causing damage to others.

Collusion. A secret agreement between two or more parties to defraud or cause damage to a person or entity or to obtain an unlawful purpose.

Matters such as these are the primary concern of the Office of Institutional Integrity. However, the Bank’s longstanding *Code of Ethics* (1980) and its updated policy statement, *Respect in the Workplace* (1998), prohibits:

Misconduct toward other staff, including unjustified discrimination or harassment based on race, religion, country of origin, sexual orientation, or physical condition; assault; and all forms of unwelcome sexual advances or exploitation.

Actions that deliberately or recklessly endanger the lives, health, or property of others, or that generally would be understood to be criminal in nature.

Actions that do not properly respect the dignity and sensitivities of individuals on the Bank's premises or those performing services for the Bank.

Actions that violate personal privacy, for example, revealing details from personnel files or making public accusations without due administrative process and respect for the rights of anyone accused of misconduct.

What Happens When an Allegation Is Made?

The investigative process is shown schematically in Figure 3. All allegations are reviewed individually and reported to the OCFC. Allegations and the identity of complainants are kept confidential.

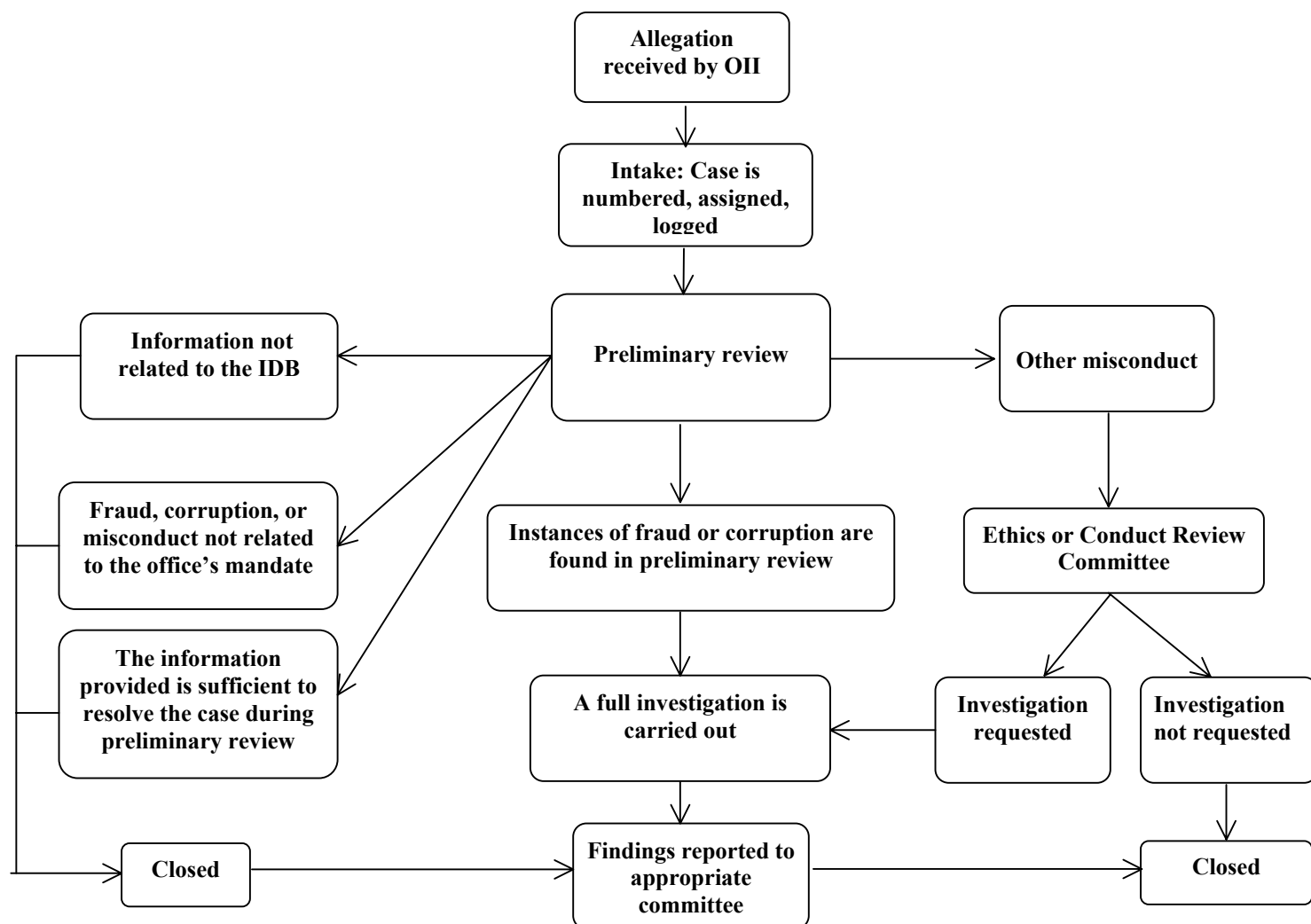
Most allegations received by OII concern matters of fraud or corruption. If a preliminary review indicates possible fraud or corruption in an IDB-related operation, OII conducts a full investigation.

Allegations not involving fraud or corruption—but which raise issues under the jurisdiction of either the Ethics Committee or the Conduct Review Committee—are referred for considerations to the appropriate committee. OII conducts full investigations of these allegations upon request by the respective committee.

If allegations do not involve the operations of the IDB or do not raise issues of fraud, corruption, or misconduct, they may be referred to appropriate offices within or outside the Bank.

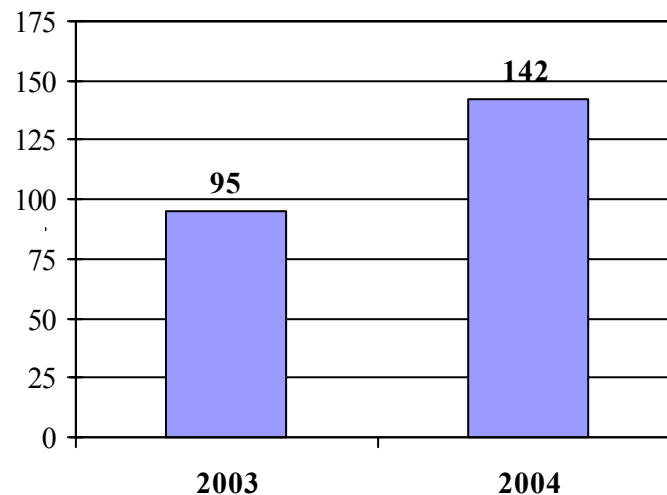
The results of OII's investigations are reported to the Bank committee with jurisdiction over the matter. In *all* cases, the rights of anyone accused and of witnesses are fully respected.

Figure 3: The Investigative Process



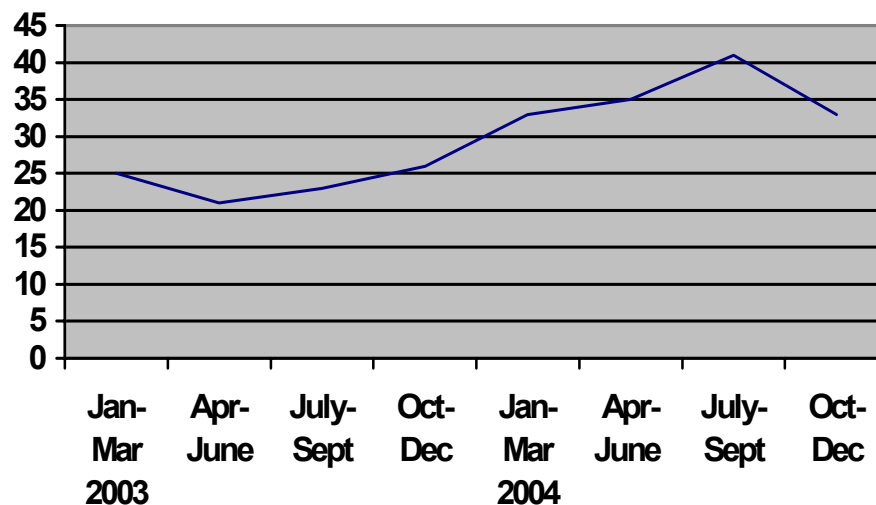
The number of allegations has increased steadily over the past four years in parallel with ongoing efforts to educate and build awareness on the nature and seriousness of corrupt practices, and encouraging staff members and member countries to speak out when they see behavior that may be inappropriate. Figure 4 represents the number of new allegations received by OII in 2004, its first year of operations. This represents a 50 percent increase over the 95 allegations received by the Bank in 2003.

Figure 4
Allegations Received, 2003 and 2004



The clear upward trend, illustrated in Figure 5, is expected to persist as OII continues to get the message out and follows up on allegations received.

Figure 5
Number of Allegations Received Quarterly, 2003–04



Nearly two-thirds of the allegations received in 2004 were reported by non-Bank staff, including staff of executing agencies, losing bidders, and the general public (Table 2). About 10 percent of allegations came from individuals identifying themselves as Bank staff, and the remaining quarter were presented anonymously.

Table 2
Sources of Allegations, 2004

Source	Number	Percent
Non-Bank staff	91	65
Bank staff	14	10
Anonymous	37	25
Total	142	100

Of the 142 allegations received in 2004, 45 percent were forwarded to OII by the IDB country offices. These included allegations from Bank staff, as well as from third parties directed through country office staff.

Complainants made use of several methods in order to transmit allegations. As indicated in Table 3, more than half were transmitted via e-mail and the Web.

Table 3
How Allegations Were Submitted, 2004

Source	Number	Percent
E-mail	68	48
Mail	46	32
Web	10	7
Walk-in	9	6
Telephone hotline	5	4
Fax	4	3
Total	142	100

Processing of Allegations: Old and New Cases

The Office of the Auditor General, which was responsible for investigations prior to OII, started the year 2003 with 37 open cases. It received 95 new allegations and closed 65 cases. OII received 142 allegations during 2004 and carried over 67 from the previous year. Particular effort was made to close older cases, especially those not requiring extensive investigation. Cases closed included matters handled by OII as well as by the Office of the Auditor General (Table 4).

OII investigators visited seven countries in 2004, making several visits in some instances. Of 209 active cases in 2004, 92 cases were closed—33 after a preliminary review and 59 after investigation. The 117 cases that were carried over to 2005 are either currently under investigation, or final reports are pending for submission to the OCFC.

Table 4
Cases Closed and Carried Over, 2003–04

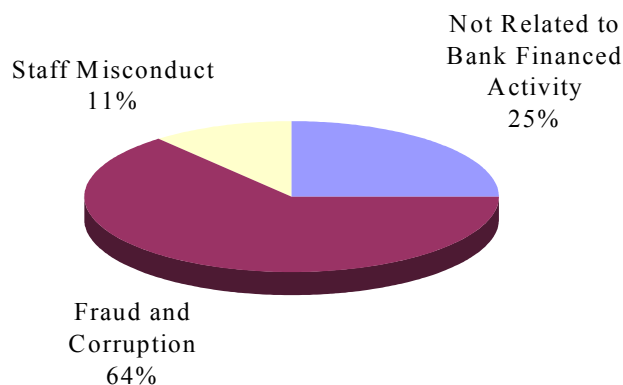
	2003	2004
Cases carried over from prior year	37	67
New allegations	95	142
Total active cases	132	209
Cases closed	65	92
Cases under investigation at end of year	67	117

Of the 92 cases closed in 2004, 33 cases were resolved after preliminary inquiry determined that the complaint did not pertain to an IDB-financed activity or did not relate to fraud, corruption, or staff misconduct. Eighteen cases were closed after an inquiry provided sufficient evidence for a finding or referral without a full investigation or cases in which OII was asked to provide an opinion or analysis of a matter. Two cases were closed by the Ethics Committee, and 39 cases were closed by the OCFC after an investigation.

The Nature of Allegations Received

The vast majority of allegations received in 2004 were related to issues of fraud or corruption in projects and operations. Figure 6 shows the distribution by broad category—fraud and corruption (64 percent), staff misconduct (11 percent), and those not related to Bank-financed activities (25 percent).

Figure 6
Distribution by Type of Allegation Received in 2004



The nature of allegations varied widely. They included charges of manipulation of the procurement process, kickbacks and bribes, accounting fraud and overcharging, misappropriation of project assets, and submission of forged documents. Most allege multiple violations. Allegations about Bank staff included claims of conflict of interest, manipulation of the procurement process, receipt of kickbacks, and staff misconduct such as sexual harassment.

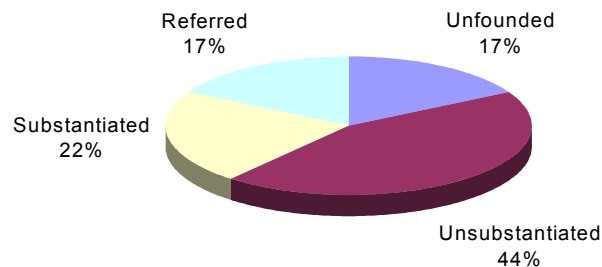
Internal Investigations Completed during 2004

Just as Bank staff must be beyond reproach in terms of their professional and personal conduct, it is equally important that they be treated fairly when allegations arise. Internal investigations of Bank staff receive the highest priority. First and foremost, staff are always treated with a presumption of innocence. Cases are investigated with the greatest of care to protect the rights and reputations of those who are accused, as well as witnesses and those who are making allegations.

Matters requiring internal investigations in 2004 addressed allegations ranging from fraud or corruption in Bank-financed projects to allegations of workplace misconduct, such as sexual harassment and violations of the Bank's Code of Ethics. Cases investigated in 2004 included nine complaints against staff members carried over from 2003 and eight new allegations received in 2004. Eight of the complaints alleged fraud or corruption; five contained allegations of staff misconduct or violations of the Ethics Code; one complaint contained an allegation of both fraud or corruption and staff misconduct; and three were determined to involve only management issues. The three cases involving management issues were referred to other Bank departments for resolution; three allegations were determined to be unfounded; eight were unsubstantiated; and four were substantiated. Two of the substantiated cases were forwarded to the Human Resources Department for appropriate resolution. In two other cases, corrective measures were taken by Bank management.

Figure 7 breaks down the results of these internal investigations by percentage.

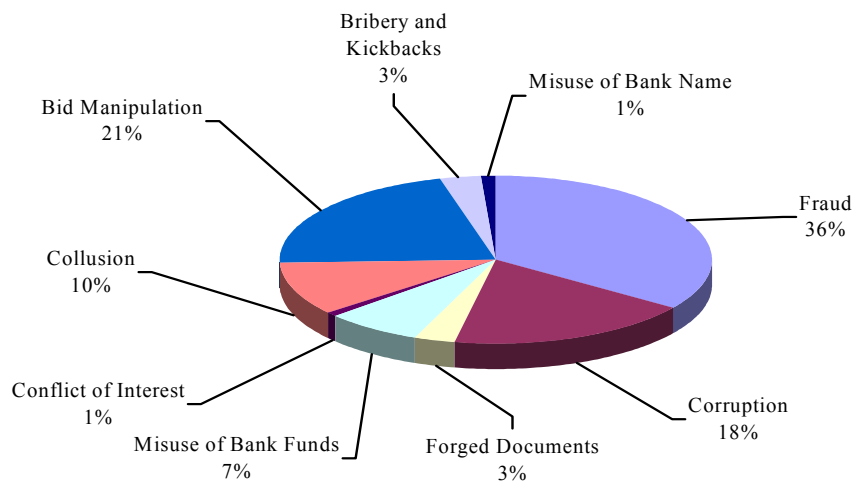
Figure 7
Results of Internal Investigations in 2004



How Cases Related to Fraud and Corruption Were Resolved

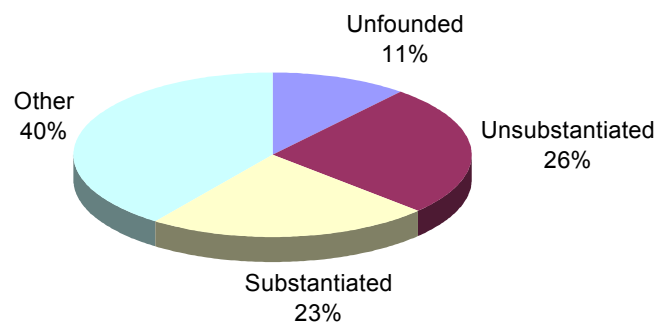
The cases investigated by OII in 2004 varied widely. Figure 8 breaks down the types of fraud or corruption issues investigated in 2004.

Figure 8
Types of Fraud or Corruption Issues Investigated in 2004



The results of closed cases are broken down by percentage in Figure 9.

Figure 9
Results of Cases Closed in 2004



Cases classified as *unfounded* are those in which the allegations were determined to be untrue. In *unsubstantiated* cases, sufficient evidence was not found to either confirm or deny the allegations. Cases

classified as *substantiated* have a preponderance of evidence that indicates at least some of the allegations were determined to be valid.

It should be noted that a *substantiated* case does not necessarily mean a finding of fraud or corruption. In some cases that included allegations of fraud or corruption, allegations of conduct other than fraud or corruption were substantiated while the charges of fraud or corruption were either unsubstantiated or unfounded. For example, in several cases there was a finding of sufficient evidence of negligence to warrant a recommendation of a review by Bank management and a parallel finding that there was not sufficient evidence to substantiate fraud or corruption.

Among cases closed and classified as *other*, half of such cases, or 20 percent of the total, did not relate to IDB-financed activities. Eighteen percent of the allegations did not relate to fraud, corruption, or staff misconduct; and of these, more than half were referred to other Bank departments for appropriate resolution. In 2 percent of the allegations, the complainant did not provide enough information for OII to identify the project at issue.

Some Significant Investigative Findings in 2004

Because 2004 marked its first full year of operations, OII has not yet completed investigating all allegations received during the year. Some investigations have been completed; others are ongoing, with findings being prepared for submission to the OCFC. The investigative findings shown here are illustrative of OII's work.

Fraudulent Reimbursement Requests by an Executing Agency

An executing agency received a nonreimbursable grant from the Bank. It was determined that the agency had paid consultants in cash despite instructions to make payments by check. It was determined that the executing agency had retained approximately 20 to 30 percent of the consultants' salaries and had submitted fraudulent invoices claiming that the consultants had been paid the entire amount due.

The executing agency was found to have hired a project director through a noncompetitive process. The contracting process had been manipulated to ensure that favored persons and firms would win particular contracts. In one instance, the executing agency claimed that candidates for a position had been interviewed, though these interviews had never actually taken place.

As a result of OII's investigation, the project was terminated. Further, the OCFC's decision prohibits the executing agency from participating in future Bank-financed projects unless it can satisfy the Bank that its eligibility should be restored. In this case, several individuals were permanently barred from participating in future Bank-financed activities. The findings were also reported to national authorities.

Similar allegations concerning fraudulent schemes have been received implicating executing agencies in other countries. These matters are currently under investigation.

Bid Manipulation by a Contractor

Investigations have been conducted into several allegations of manipulation of bidding processes in Bank-financed activities. In one case, it was determined that an advisor to an executing agency directed contracts to a company in which the advisor had a financial stake. OII's investigation showed that the advisor had recommended contracting the company, approved its services, and requested payments for the company on behalf of the executing agency. Final resolution of this matter is pending.

Self-Dealing by Officials

An executing agency arranged for the rental of an office building that the director owned. In an effort to cover up the self-dealing, the director entered into a sham transaction to sell the property to one of his employees. It was discovered that the sham transaction was secretly rescinded shortly after its execution. Moreover, it was determined that the rent charged to the executing agency was substantially inflated beyond the market rate. Additional evidence indicated that the director had used project resources and staff to support his personal political campaign. The director has been removed from the executing agency.

Misrepresentation of Qualifications

Several allegations of corrupt manipulation of bidding processes were investigated but resulted in insufficient evidence for a finding of corrupt practice. However, analysis of the bidding processes indicated the possibility that some executing agencies may be employing an excessively technical application of procurement rules in order to disqualify certain individuals and manipulate the award of contracts in some operations.

Reviewing the files and the reports, many of the disqualifications are explainable as technicalities. In one bidding process, the executing agency eliminated 11 out of 16 bidders as unqualified, including large, well-known companies. OII observed that the same executing agency had disqualified firms in several other procurement processes. In one instance, 6 out of 8 participants were disqualified for technical reasons; in another, 2 out of 3; in another, 6 out of 10; and in another, 3 out of 4.

In several other cases, firms were disqualified because they lacked the required prior experience. However, examination of their disqualification showed that they did often have the required prior experience and had failed only in supplying properly certified documentation of prior experience. In other cases, firms that had not provided such documentation were *not* disqualified.

Submission of Forged or Fraudulent Documents

A number of investigations have been conducted into forged or fraudulent documentation used in bidding processes for Bank-financed projects. Investigation has revealed the submission of falsified certificates of prior work, falsified résumés, and the submission of documents with forged signatures. In one case, investigation confirmed that a company bidding on a Bank-financed contract had presented falsified certificates of prior experience as well as documentation in which the signatures of officials were forged. The firm was declared ineligible from further participation in the contract.

In a separate case, an IDB sector specialist reviewing an offer identified what appeared to be a fraudulent signature allegedly confirming participation by a consultant included in the bid. Investigation confirmed that the consultant had neither signed the document nor agreed to participate in the project. Furthermore, three other offers in the same bidding process were found to include official records that had been fraudulently altered to comply with the bid requirements.

In a third case, an allegation was presented that a participant company in a tender offer had falsified documentation, exaggerating the level of experience of the construction manager. The participant company was asked to provide documentation to support its claims and was disqualified when the certificate indicated less experience than had been claimed. The company then filed a procurement protest, claiming that the construction manager's level of experience complied with the project requirements. Although the investigation indicated that the misrepresentation of the manager's level of experience could have been error rather than fraud, it was then determined that the owner of the company had subsequently demanded monetary compensation from the executing agency in exchange for withdrawing the procurement protest.

4. The Road Ahead: In 2005 and Beyond

At the end of the first year of OII's operations, it was clear that significant progress had been made in creating and implementing a strong integrity program and beginning to move towards a proactive program of prevention. Yet many challenges remain for 2005 and beyond.

- *Revision of the ethics code to enhance an environment of integrity and trust.* OII has played a significant role in finalizing a revised Code of Ethics and Procedures governing the activities of the Ethics Committee. Both the code and the procedures are expected to be released and implemented in 2005. OII is planning the rollout for the new code and the implementation of a comprehensive program to train all Bank staff on the obligations under the new code. OII is also leading the development of a financial disclosure program for Bank staff, which will be required under the revamped Code of Ethics.
- *Anticorruption training for IDB borrowing-country officials.* Planning began in Fall 2004 for an anticorruption training workshop targeted toward officials from Latin America and the Caribbean who investigate and prosecute corruption cases. The focus is on practical aspects of investigations, particularly on strategies to investigate transnational corruption.
- *Introducing a case tracking system.* In 2005, a state-of-the-art investigative database will be implemented. This will allow OII to better track the status of all investigations. Moreover, the database will improve the management of information related to investigations. Data will be available in electronic format that is searchable and accessible to OII staff.
- *Disseminating rules and procedures beyond the Bank.* OII had developed and anticipates implementation of a more robust outreach program in 2005. This is aimed not only at the Bank's country offices and headquarters staff, but also its executing agencies, firms, and the consultants who participate in Bank-financed projects. It is essential that all actors have a clear understanding of the Bank's integrity programs, including its sanctions procedures. OII will also continue to work closely with national officials involved in anticorruption efforts within their own countries, thereby facilitating the referral of findings and appropriate follow-up.
- *Expanding staff capacity.* OII's workload has increased substantially over the past year, requiring many more staff hours, especially for investigation. The growth in both the number and complexity of allegations obligates OII to continue to improve efficiency and apply resources to do the job. The burgeoning workload necessitates recruitment of staff who can hit the ground running and quickly learn the practices and policies of the IDB.
- *Prioritizing for best use of resources.* OII will begin rigorous prioritization of allegations in order to determine how to most effectively allocate available resources. Prioritization criteria will help to determine which allegations require immediate attention versus those that may not require a full investigation. A prioritization program is already under development and will be implemented in consultation with the OCFC and regional managers.

How to Report a Matter of Concern

To report or discuss a matter of concern, please contact us through any of the following means. Strict confidentiality is always maintained.

- International toll-free hotline: (877) 223-4551
- Secure and confidential e-mail: allegations@idbfc.org
- Secure and confidential fax: (202) 312-4029
- Web-based form that permits anonymous reporting: www.idbfc.org
- Postal address:
Inter-American Development Bank
1300 New York Avenue, NW, Stop W1212
Washington, D.C. 20577
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