

Office of Institutional Integrity | Annual Report 2006

THE IDB GROUP

Leading with Integrity



ABOUT THE INTER-AMERICAN DEVELOPMENT BANK GROUP

The Inter-American Development Bank (IDB) was established in 1959 to promote economic and social development throughout Latin America and the Caribbean. With novel mandates and tools, the Bank's lending and technical cooperation programs went far beyond the mere financing of economic projects that was customary at the time.

The IDB's programs and tools proved so effective that it soon became the model on which all other regional and sub-regional multilateral development banks were created. Today, the IDB is the oldest and largest regional development bank. The IDB Group, which also includes the [Inter-American Investment Corporation](#) and the [Multilateral Investment Fund](#), is the main source of multilateral financing for economic, social and institutional development projects as well as trade and regional integration programs in the Latin America and the Caribbean region. Through its [loans](#), [grants](#), [guarantees](#), policy advice and [technical assistance](#), the IDB Group is a key partner with each of its 26 [borrowing member countries](#), promoting sustainable economic growth and poverty reduction.

The Inter-American Investment Corporation (IIC) is a development institution established in 1986 under the auspices of the IDB to promote and support the development of the private sector and the capital markets throughout Latin American and the Caribbean.

The Multilateral Investment Fund (MIF) was designed in 1993 as a new type of technical assistance mechanism to stimulate innovation and extend beyond existing bilateral and international assistance instruments for Latin America and the Caribbean

To learn more about the IDB Group, please visit our websites:

www.iadb.org

www.iic.int

www.iadb.org/mif

A MESSAGE FROM OUR PRESIDENT

The Inter-American Development Bank Group supports the activities of government, business and non-profit entities that promote economic and social development in Latin America and the Caribbean. The larger goal is to help people throughout the region in their efforts to build better lives and sustainable futures. We achieve our objectives with multiple strategies; it is not just through financing and guarantees but it is also in providing value-added services such as assisting our client organizations adopt the open, transparent and collaborative processes that comprise good governance. Good governance in turn leverages significant increases in foreign investment, business sector growth and income generation; it is one of the best means for fighting corruption and assuring fiscal and fiduciary soundness.



There is no question that corruption imposes devastating costs on our member countries, their citizens and the Bank Group's operations. Those who need the most help, the poorest among us, bear a disproportionate share of these costs. We know that this is an untenable price and understand that the Bank Group can only succeed in its mission if it is grounded in integrity, a core value that we work hard to promote.

In this respect, 2006 has been a very important year with the implementation of many new integrity and anti-corruption initiatives. The Bank adopted a revised Code of Ethics and launched a rigorous ethics training program for all Bank staff. My senior staff and I were the first to complete the training course. The Bank also increased transparency to our sanctions process with the implementation of new Sanctions Procedures and the formation of a new Sanctions Committee. In September, I signed an historic agreement with the world's leading international financial institutions to harmonize anti-corruption policies and procedures. The Office of Institutional Integrity is tasked with both prevention and investigation of fraud and corruption and, as such is at the frontline in helping the Bank Group and its clients incorporate lessons learned and identify and close gaps that create risk for fraud or corruption.

As the IDB Group strives to realign itself to the evolving needs of the region, the definition of success for our work must include measures of transparency, integrity and accountability, or we will not accomplish our objectives. There is no such thing as sustainable economic and social growth without these qualities. We believe that real advances in development can be achieved—as long as we are able to lend and invest in an environment free of corruption. We pledge to continue to do our part.

A handwritten signature in black ink, consisting of a large, stylized 'L' followed by a series of loops and a final horizontal stroke.

Luis Alberto Moreno

LIST OF ABBREVIATIONS

DEV/PRM	Development Effectiveness and Strategic Planning Department / Project Procurement Division
IDB	Inter-American Development Bank
IDB Group	The Group is comprised of IDB, IIC, MIF.
IFI	International Financial Institutions
IGAC	International Group for Anti-corruption Coordination
IIC	Inter-American Investment Corporation
INT/RTC	Integration and Regional Programs Department / Regional Technical Cooperation Division
MIF	Multilateral Investment Fund
NGO	Non-governmental organization
OCFC	Oversight Committee on Fraud and Corruption
OECD	Organisation for Economic Co-operation and Development
OII	Office of Institutional Integrity
OLAF	European Anti-Fraud Office for the European Commission
UNCAC	United Nations Convention Against Corruption
UNDP	United Nations Development Programme

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INTRODUCTION

The Office of Institutional Integrity (OII) was created three years ago as a key element in the Inter-American Development Bank Group's overall framework for building integrity and eliminating corruption and fraud. In this report, we discuss our achievements to date and the challenges and opportunities that lie ahead. Given the relative newness of the Office, we also include in this report a brief review of the ways in which OII functions, as well as its limits. An Annex describes these processes in detail. The report is also part of OII's educational effort, as a resource to enhance awareness and understanding of the types of fraud and corruption that OII investigates and the preventive measures that it promotes as part of its mandate.

OII's achievements in 2006 reflect, in part, the growing awareness of OII's function and mission both from within the Bank Group as well as outside. In short, OII continues to grow in its ability to fulfill its mission, with a permanent staff of nine and an annual budget of \$1.9 million. A major addition this year was an electronic case management system, INTIS, which has helped enhance operational efficiencies. Moreover, in 2006, the implementation of the new Sanctions Procedures and creation of the Sanctions

Committee provided increased transparency to the Bank Group's investigative and sanctions processes.

As a quick snapshot of additional 2006 accomplishments: we created online information, educational and contact pages as part of the Bank Group's new Integrity website; supported Bank-wide ethics training regarding the newly revised Code of Ethics; contributed to multiple Bank Group internal preventive activities; worked with bilateral and multilateral organizations in collaborative efforts to enhance anti-corruption results; helped launch a Uniform Framework for anti-corruption measures with the leading development finance institutions; and completed 137 investigations.

To understand our roles and responsibilities within the context of the many anti-corruption activities of the entire Bank Group, we begin our report with a short discussion of the IDB Integrity framework, OII's mandate and how it has worked to fulfill its mandate. For readers who would immediately like to understand the data and review specific cases that OII investigated and closed in 2006, please see Chapters II and III.

MANDATE OF THE OFFICE OF INSTITUTIONAL INTEGRITY

- Investigate allegations of fraud, corruption and certain alleged violations of the Code of Ethics and related regulations and staff rules.
- Report on investigative findings and lessons learned and provide advice and recommendations arising from those findings to the President, senior management and appropriate Bank committees.
- Support the development and implementation of outreach and training activities to Bank staff and other relevant parties in order to disseminate lessons learned from investigative results and promote awareness of mechanisms, practices, regulations and policies that promote integrity and prevent fraud and corruption.
- Support the improvement of mechanisms, practices, regulations, and policies that promote an ethical working environment and enhance the integrity of the Bank's operations.
- Coordinate with the Office of Evaluation and Oversight, the Office of the Auditor General and other Bank offices responsible for risk management and internal control functions.
- Serve as the Secretariat for the Oversight Committee on Fraud and Corruption.
- Support the Bank's programmatic and lending activities that include anti-corruption and integrity components.
- Coordinate with other international financial institutions and international organizations to share experiences and practices to prevent corruption, and develop integrity programs and strategies.
- Report on significant findings with regard to matters of fraud and corruption to the Audit Committee of the Board of Directors and, as appropriate, to the Board at large and the Bank's external auditors.



I. OII AND THE IDB INTEGRITY FRAMEWORK

With a mandate from its member countries, the Inter-American Development Bank Group* has given increased attention over the past decade to the extensive impact of fraud and corruption on its ability to conduct business effectively, to support borrowers' efforts to affect change and to help the people that Bank Group-financed programs are meant to assist. This effort has been undertaken in parallel with the world's other leading financial institutions. There is clear consensus: corruption has been a hidden yet devastating and expensive cost to economic growth and development for far too long.

The IDB Group has devoted significant resources to preventive programs that build and support good governance, integrity and anti-corruption measures. Within our region, we have worked closely on a bilateral basis with other international organizations to harmonize our respective programs, including integrity in project design and execution. In 2006, the Bank Group collaborated in a multilateral initiative with the world's major financial development institutions to develop a Uniform Framework of policies, practices,

and investigative tools for fighting fraud and corruption. These collective efforts leverage the combined strength of the organizations to tackle corruption, one of the most pervasive threats to sustainable development and economic growth.

We believe that when an expectation of integrity rather than an acceptance of corruption becomes the norm, the level of development effectiveness will rise dramatically. This is one of the reasons why each of the major development banks has established an office similar to the Office of Institutional Integrity as one important tool for building integrity. Our efforts at the Inter-American Development Bank Group to eliminate corruption and build a robust foundation for its prevention are required for fiscal and fiduciary responsibility to our member countries and to all the peoples whom we serve through our activities. In 2006, we continued to build this foundation of prevention both within the Bank Group and, especially, in our support for anti-corruption activities within our member countries.

* The Inter-American Development Bank Group is comprised of the Inter-American Development Bank, the Inter-American Investment Corporation and the Multilateral Investment Fund. In this report we refer to the three of them collectively as the "Bank Group" or the "IDB Group" and to the Inter-American Development Bank as either the Bank or the IDB.

The Bank Group defines fraudulent or corrupt practices* as follows:

- A **corrupt practice** is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party;
- A **fraudulent practice** is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation;
- A **coercive practice** is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to improperly influence the actions of a party; and
- A **collusive practice** is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

*as adopted by the Board of Executive Directors on February 14, 2007

The IDB Group has developed a multipronged strategy to achieve this, from its instruments for analyzing country and institutional capacity and risk to a policy of investigating allegations of wrongdoing. Just as importantly, the Bank Group is working hard to build a culture of integrity within the Group and throughout its activities; it has a growing prevention effort, sharing principles, practices and tools throughout its borrowing member countries and institutions.

In 2001, to strengthen its anti-corruption framework and clarify its authority to investigate fraud and corruption, the Board of Executive Directors (the operating Board of the Bank) approved a new strategy detailed in the document: *Strengthening a Systemic Framework Against Corruption for the Inter-American Development Bank* (Systemic Framework).

This strategy elaborated three pillars of a new integrity agenda to:

- Ensure that Bank staff act in accordance with the highest levels of integrity and

THE EVOLUTION OF THE IDB INTEGRITY FRAMEWORK

February, 2001

Board of Executive Directors approves *Strengthening a Systemic Framework Against Corruption for the Inter-American Development Bank*.

June, 2001

Creation of the Oversight Committee on Fraud and Corruption (OCFC) to “coordinate all allegations of fraud and corruption with respect to staff members or others, in connection with any Bank activities or operations, and to oversee any resulting investigation.”

that internal policy and procedures support this goal;

- Support programs that will help borrowing countries strengthen good governance, enforce the rule of law, and combat corruption; and
- Ensure that activities financed by the Bank are free of fraud and corruption and executed in a proper control environment.

Following this, the Bank created the [Oversight Committee on Fraud and Corruption \(OCFC\)](#) with a mandate to oversee the investigations of all allegations of fraud and corruption, whether internal or external in nature. A toll-free hotline was set up along with a secure e-mail address, allowing for anonymous allegations and assuring confidentiality of the identity of those reporting. As these anti-corruption measures became more widely known, the Bank received a growing number of allegations concerning fraud and corruption. The Bank responded by establishing the Office of Institutional Integrity as a separate investigative office that began operations in January 2004.

THE OFFICE OF INSTITUTIONAL INTEGRITY: AT A GLANCE

The Office of Institutional Integrity (OII) is an independent unit within the Office of the President that is mandated to detect, investigate and prevent fraud, corruption and misconduct in Bank Group activities. OII is responsible for receiving and investigating allegations of fraud or corruption. OII also reports on lessons learned from its investigative findings and supports improvement of the policies, practices, mechanisms and regulations that promote an ethical working environment and enhance the integrity of the Bank's operations.

Jurisdiction of the Office of Institutional Integrity

The Office of Institutional Integrity is responsible for detecting, investigating and ultimately preventing violations of Bank policies prohibiting fraud, corruption or misconduct with respect to staff members or third parties, in connection with Bank-financed activities. Definitions of fraud and corruption are contained in the Bank's procurement policies. Misconduct involves violations of the [Code of Ethics](#) or [Staff Rule 323](#), "Respect in the Workplace."

September/October, 2002

Inauguration of a toll-free hotline and a secure e-mail address for reports of fraud and corruption.

July, 2003

Management of Bank announces implementation of Rules for Bank Administrative investigations governing investigations into staff misconduct.

OII supports the three pillars of the Bank's *Systemic Framework* with its activities, as briefly outlined below and more fully discussed in the following sections within this report.

The First Pillar: Setting the Standard

In fulfilling the first pillar of the *Systemic Framework*, the Bank Group recognizes that it is committing to lead by example. Staff confidence and trust in the Group's own integrity system is essential to success. To achieve this, the Group has instituted internal policies, trainings and other measures to assure Bank-wide adherence to the highest standards of ethics and integrity. The Bank implements this through its:

- [Code of Ethics](#) and [Ethics Committee](#)
- [Staff Rule 323 \(Respect in the Workplace\)](#) and [Conduct Review Committee](#)

The IIC has adopted its own internal Code of Ethics and rules for respect in the workplace, which closely resemble those of the Bank.

Beginning in 2006, all staff members are now receiving ethics training. President Moreno and senior management were the first to complete the training program.

The Second Pillar: Supporting Prevention Efforts of Borrowers

The Bank works closely with its borrowing member countries, their government agencies and executing agencies to enhance prevention through programs and projects that help countries strengthen democratic governance, modernize the state, and enforce the rule of law and combat corruption.

Within these efforts, OII provides support to the Bank's programmatic and lending activities that include anti-corruption components as well as to the anti-corruption efforts of our member countries. Additionally, the Office conducts workshops and training for anti-corruption officials and assists the Bank's operational units by sharing lessons learned and identifying preventive measures in project design and execution.

October 2003

Creation of the Office of Institutional Integrity (OII) approved by Management.

November 2003

Staff Rule 328, "Protection for Whistleblowers and Witnesses" approved.

The Third Pillar: Combating Fraud and Corruption as a Fiduciary Responsibility

The third pillar of the integrity framework is to ensure that activities financed by the Bank Group are free of fraud and corruption and are executed in a proper control environment. The fiduciary authority to supervise the use of funds and the Bank's mechanisms to combat fraudulent and corrupt practices in its operations derive from the supervisory authority specified in the Agreement Establishing the Inter-American Development Bank. Likewise, in the context of an IIC-financed project, the authority to supervise the use of funds is expressly included in the loan and investment agreements.

OII has the exclusive mandate within the Bank Group to investigate allegations of fraud or corruption within activities financed by the Group, recommending dismissal for allegations with no substance and investigating those where violations of relevant anti-corruption policies may have

occurred. Investigations are conducted pursuant to the [Principles and Guidelines](#) for Investigations endorsed by the International Financial Institutions Anti-Corruption Task Force. The Bank Group strives to assure that the rights of all parties are adequately observed and protected.

Confidentiality is Key

The Inter-American Development Bank's rules to provide confidentiality in investigations include:

- The Bank fully protects the confidentiality of complainants.
- All staff involved in an investigation process are obligated to preserve and protect the confidentiality of the subject, the witnesses, and all other parties concerned.
- Any staff member who compromises the confidentiality of a complainant is subject to disciplinary action.
- The Bank accepts anonymous allegations.

January 2004

OII commences operations.

March 2006

President announces revised Code of Ethics and commencement of Bank-wide training.

HOW OII WORKS

OII receives inquiries and classifies these as either consultations or allegations. Allegations that involve possible fraud or corruption will be investigated; these will be categorized as unfounded, unsubstantiated or substantiated based on the evidence. All results are reported to the Oversight Committee on Fraud and Corruption (OCFC). In cases where the results support a finding of fraud or corruption, OII may further recommend to the OCFC that sanctions be considered, whether by the OCFC for private sector matters or by the Sanctions Committee for public sector matters. OII may also propose additional measures for consideration by other Bank units e.g. involving legal, procedural or procurement regulations.

The majority of OII's work is related to external (and to a lesser extent, internal) cases of alleged fraud and corruption. If an allegation involves staff misconduct—as per the Bank's Code of Ethics or Respect in the Workplace Policy—these matters are referred to the appropriate oversight committee.

Protection for Whistleblowers and Witnesses

Maintaining the integrity of the Bank's administration and operations, including the Bank's systems for administrative investigations and resolution of disputes, requires the active support of all Bank employees. To ensure Bank employees are confident that their support for this objective will not lead to reprisals affecting the terms of their employment or their career development, the Bank has adopted a staff rule providing protection for whistleblowers.

At their discretion, these committees may ask OII to investigate such matters; OII will report its findings for decisions regarding any possible action. Detailed descriptions of the Investigative Process and Sanctions Procedures and related flow charts are located in the Annex.

April 2006

The Board of Executive Directors implements a new sanctions process through amendments to Bank policies.

September 2006

Historic cooperative agreement by heads of all International Financial Institutions to harmonize efforts in the battle against fraud and corruption.



II. UNDERSTANDING OUR DATA—2006

With each year, OII receives an increasing number of inquiries. This does not mean that there is an increase in the amount of fraud and corruption in Bank-financed activities; rather, it means that there is broader knowledge about consulting with OII and reporting potential fraud and corruption, that the mechanisms for reporting allegations have improved and that there is greater trust in the investigative process.

As discussed earlier, inquiries are classified either as consultations or as allegations. For the allegations that OII investigates, it reports its findings to the appropriate committee, thus “closing” the case for OII. Over the course of this year, OII completed 137 investigations of allegations received in 2006 as well as from prior years. Completion of the investigation, however, does not always end the matter. As described previously, upon completing an investigation, OII communicates its

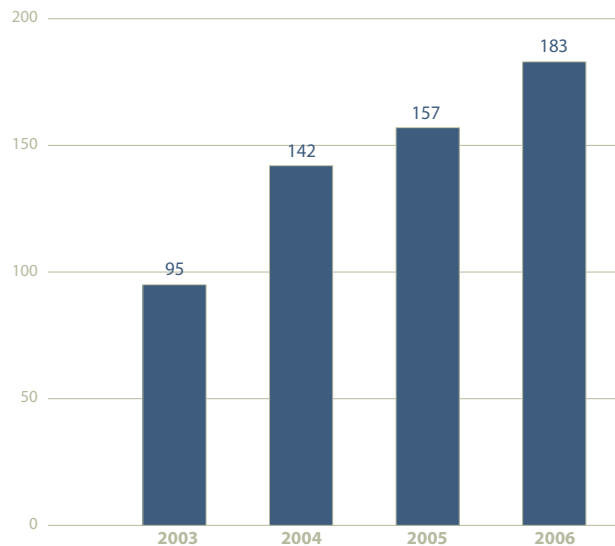
findings and recommendations to the appropriate committee. In some cases where there is no or insufficient evidence that any rule or policy may have been violated, the investigative findings may end the matter. In those cases where there is a finding of fraud or corruption, further proceedings may determine if any of the parties involved should be administratively sanctioned for their conduct. Investigative findings may also lead to referral to national authorities. Beyond these outcomes, OII’s investigative findings may lead to recommendations that other Bank units consider additional steps or actions. (The Annex describes these processes in detail.)

This chapter provides an overview of inquiry, allegation and case flows as well as investigative outcomes and sanctions status for 2006.

ALLEGATIONS

In 2006, OII received 183 inquiries. Of these, 149 involved allegations and were categorized as new cases; the remaining 34 were treated as consultations. This represents a 17% increase in inquiries over 2005. The increase in consultations remains, as in prior years, a healthy sign that Bank staff and third parties are seeking the assistance of OII in matters of integrity. This becomes one of the means by which OII can educate those involved in Bank-financed projects about anti-corruption policies and mechanisms as well as the Bank's expectations for integrity. These consultations also provide OII a means to identify possible preventive measures.

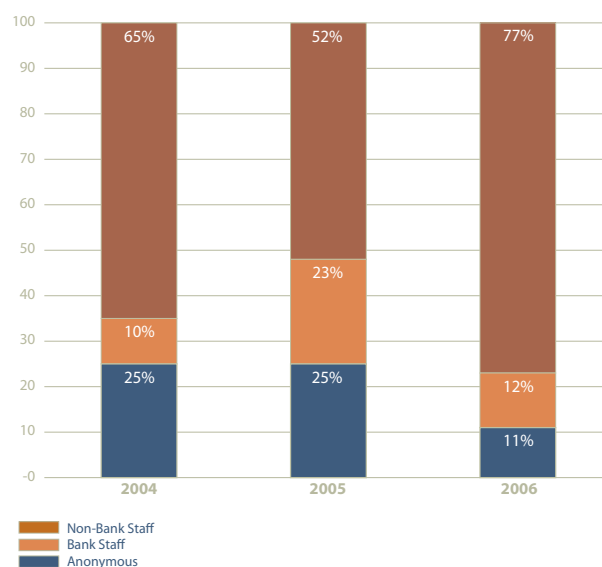
TOTAL INQUIRIES RECEIVED 2003-2006



New Allegations

Of the new allegations in 2006, only 11% were made anonymously—a significant decrease from prior years; 77% were made by non-Bank staff and the rest came from Bank staff. The reduction in the number of anonymous reports may reflect an increased confidence in the reporting mechanisms and/or confidentiality in the investigative process.

SOURCE OF ALLEGATIONS

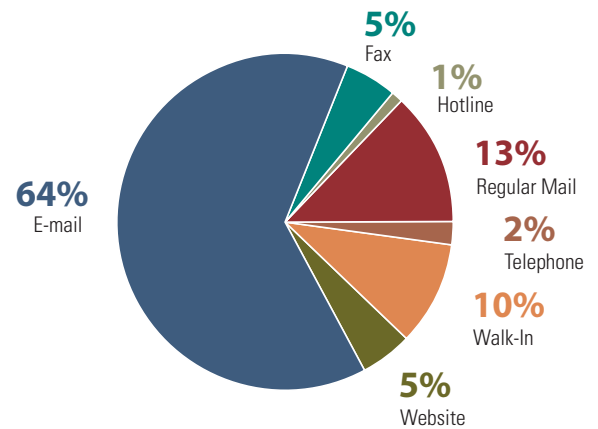


* Bank staff means both permanent employees and consultants.

How Allegations were Submitted

The Bank Group has created multiple ways in which interested parties may make inquiries and/or allegations related to potential issues of fraud and corruption. In 2006, as in previous years, e-mail appears as the most favored method of contacting the Bank Group.

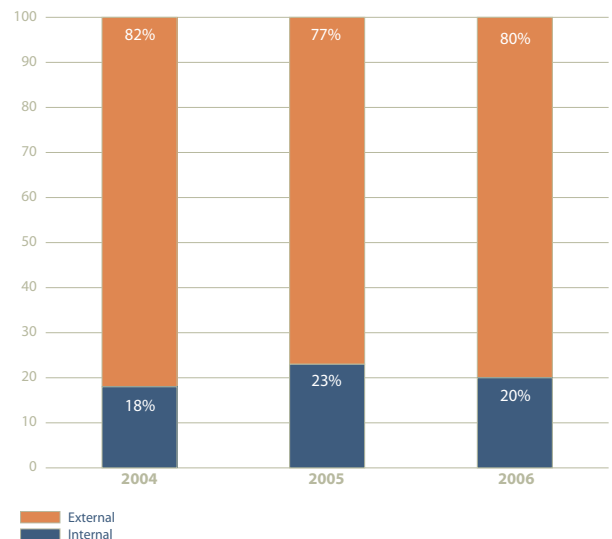
HOW ALLEGATIONS WERE SUBMITTED



External versus Internal Allegations

As already described in Section I, OII classifies cases as external when they are related to issues of fraud or corruption but do not involve staff of the Bank Group, and internal if they do involve Bank Group staff, whether in ethical violations or in fraud and corruption. In 2006, 80% of the new allegations were external, and the rest internal—on par with 2005.

EXTERNAL VERSUS INTERNAL ALLEGATIONS



CASES RESOLVED IN 2006

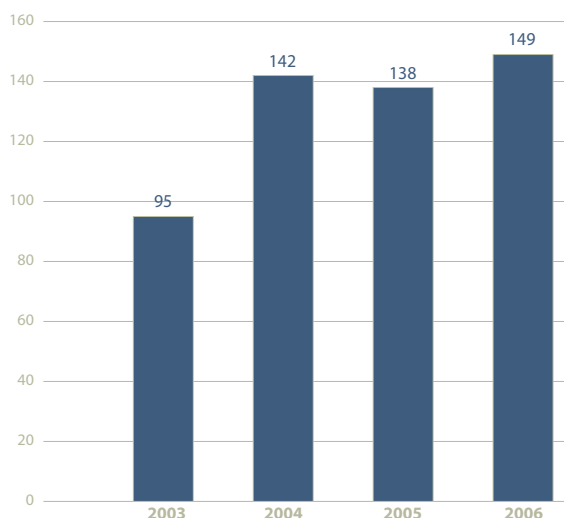
The initial classification of allegations by OII is based on the information in the allegation. Over the course of the investigation, as more information about the case becomes known, this classification is often modified.

OII began the year with 111 pending cases and opened 149 new cases. Over the course of the year, OII closed 137 cases, with priority given to the oldest cases, leaving 123 active cases as of December 31, 2006. Of the cases closed, 51 were closed at the preliminary stage—21 of which were internal and 30 external.

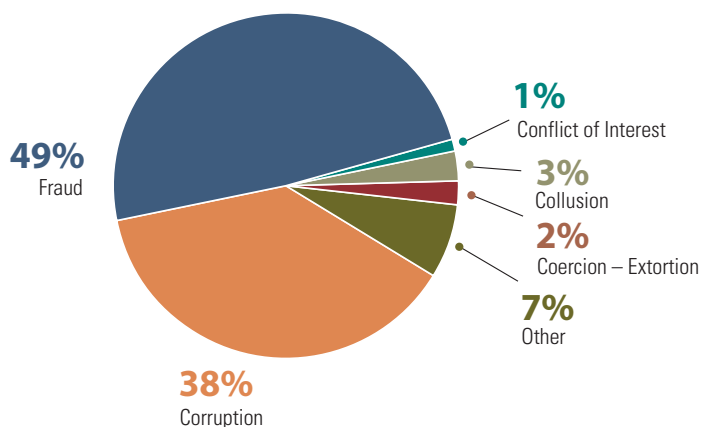
Twenty-six percent of the cases completed in 2006 were internal. Of these 35 cases, 18 were under the jurisdiction of the Ethics Committee; the Committee requested investigations in six of these matters. Fourteen cases were under the jurisdiction of the OCFC, five of which were investigated. An additional three matters were referred to the Conduct Review Committee but no investigation was requested.

External investigations that were completed this year involved a variety of types of prohibited conduct, though fraud remained the most common.

INVESTIGATIONS OPENED 2003-2006



TYPES OF ALLEGATIONS INVESTIGATED (EXTERNAL)



* This chart shows all outcomes, including cases closed after preliminary consideration

CASE FLOW 2003-2006

	2003	2004	2005	2006
Cases pending from previous year	37	67	117	111
New cases	95	142	138	149
Total active cases	132	209	255	260
Investigations completed	(65)	(92)	(144)	(137)
Cases pending at year's end	67	117	111	123

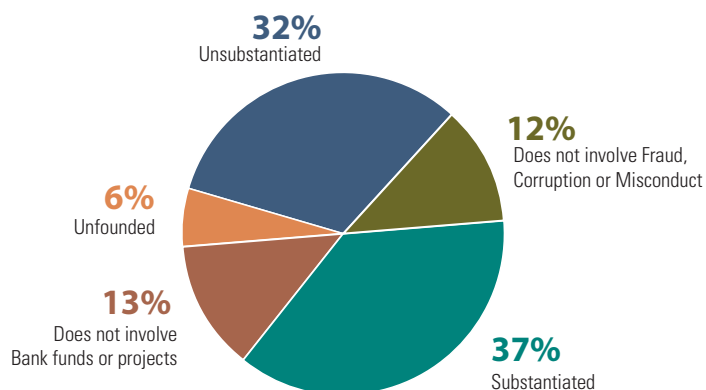
CASE RESULTS

As previously explained, a number of cases are closed at the preliminary stage; for cases that proceed to a full investigation, there are three main outcomes: an allegation may be substantiated, unsubstantiated or considered as unfounded.

Of the eleven internal cases investigated, allegations were substantiated in six of the matters, five of which were under the jurisdiction of the Ethics Committee with the remaining case under the jurisdiction of the OCFC. The remaining five cases were unsubstantiated, one under the jurisdiction of the Ethics Committee and four under the jurisdiction of the OCFC.

As in years past, approximately one third of external allegations investigated were substantiated. The outcomes for external investigations conducted by OII are described in the chart above.

OUTCOME OF EXTERNAL INVESTIGATIONS



ACTIVE CASES 2006

	INTERNAL	EXTERNAL	TOTAL
Cases pending from previous year	14	97	111
New cases	31	118	149
Total active cases	45	215	260
Investigations completed	(35)	(102)	(137)
Cases pending at year's end	10	113	123

SANCTIONS AND OTHER POST-INVESTIGATIVE ACTIVITIES

In 2006, the OCFC imposed sanctions in nine cases, up from the five in 2005. These nine cases led to debarments against 24 firms and individuals for periods ranging from one to three years. This means that these firms and individuals are ineligible to participate in Bank-financed activities during the period of debarment.

The OCFC also issued one letter of reprimand and referrals to national authorities were made in five cases. Additional referrals are pending completion of the sanctions proceedings. In the second half of 2006, the Sanctions Committee began operations and assumed responsibility for considering sanctions in cases involving public sector financing. Ten cases are now under review by the Sanctions Committee.

SANCTIONS AT A GLANCE 2005-2006

	CASES ¹	TYPES OF SANCTIONS/REFERRALS		
		DEBARMENT	REPRIMAND	REFERRAL
2005	5	11	5	10
2006	9	24	1	5
2005-2006 Cumulative	14	35	6	15
2006 In Review	10			

¹ Cases may involve multiple firms and individuals.



III: INVESTIGATIVE CASES AND OUTCOMES

During 2006, OII had 260 cases at various stages of investigation. With a new electronic case management system in place, as well as streamlined practices, OII was able to close 137 cases. As noted earlier, investigations may lead to the imposition of sanctions and may also reveal other possible violations of Bank regulations, requiring action by one or more Bank units. Investigative results may suggest changes for Bank policy or other preventive steps that can be taken to avert similar cases in the future.

It is important to note that most of the cases that OII investigates involve more than one type of fraud or corruption. Under each of the definitions for corrupt, fraudulent, coercive, and collusive practices (see Definitions Text Box, Section I) there are multiple types of possible wrongdoing. Variations on each of these themes will be evident in the cases and outcomes discussed below.

The cases included in this section provide examples of the types of allegations investigated, the lessons learned and, in some

instances, the sorts of recommendations made to prevent the recurrence of similar events or to improve future investigations.

Most of the allegations that OII has received are external in nature, involving fraud or corruption. These range from allegations of kickbacks and embezzlement to misuse of insider information and manipulation of the bidding process. A few cases were closed without further investigation when complainants declined to cooperate because they feared for their well-being. Such cases reveal one of the important reasons why anonymous allegations and strict confidentiality play an important role in pursuing fraud and corruption. As previously discussed, however, the number of anonymous allegations received has fallen significantly—perhaps indicating gains in the level of trust and confidence in the investigative process.

EXTERNAL CASES

Of cases closed in 2006, 74% were external. This first group of cases from 2006 involves allegations of embezzlement and bribery, providing examples of direct theft of project funds and corruption of Bank Group-financed activities.

Embezzlement of Funds for Micro-enterprise

A Country Office reported that it had discovered potential misuse of Bank funds by a non-profit organization, acting as Executing Agency, and its Director. The Director admitted to having used some of the funds for purposes other than those authorized under the terms of the project. OII investigated and determined that the Director had, indeed, transferred Bank funds from the project's bank account to accounts not associated with the project. More than \$200,000—originally intended to support micro-enterprise and small business development—had been diverted.

OII's investigation found that the Director had a pending criminal complaint in the local court system for misappropriating the funds of another international organization for which he had worked. OII further found that there was sufficient evidence to conclude that the Executing Agency and its Director

had embezzled Bank funds and had failed to comply with their contractual obligations to provide the Bank with the required financial accounting.

Sanctions Proceedings have commenced. The OCFC also approved the recommendation to refer the investigative findings to national authorities.

Embezzlement Takes Money from School Improvements

A senior government official noticed discrepancies in the bidding process for a Bank-financed project to improve schools. The project's Director, a consultant paid for by counterpart funds, was involved. The official requested that the Bank investigate the matter and provide the no-objection to cancel the Director's employment contract. Evidence was found indicating that the Director had submitted ineligible expenses, including for travels to exotic destinations. Additional project expenses were rejected because the project could not demonstrate that its purchases were handled through a transparent, competitive process. Finally, the Director was fired and has since fled.

The Bank will provide assistance as necessary to the government in their own investigation of the matter.

Attempted Bribery and Kickback from a Prospective Speaker

The Executive Director of a non-governmental organization that was planning a seminar on environmental law extended an invitation to an international legal expert to participate as the keynote speaker. The speaker was to be contracted directly with the Bank and the Bank was responsible for paying her fees. E-mail correspondence revealed that the NGO's Director demanded that the speaker relinquish over 60% of the \$10,000 compensation offered by the Bank, in exchange for being hired to participate in the seminar. The prospective speaker refused these terms and referred the matter to OII. During the course of the investigation, the NGO's Director admitted that he had asked the consultant to "donate" a portion of her compensation to help with the administrative costs of the seminar.

Sanctions proceedings have been recommended.

Attempted Bribery and Kickback to Renew a Consultant's Contract

OII received information that a project supervisor had demanded a kickback from a consultant as a condition of renewing his contract. The consultant refused to pay and was fired as a result. When OII interviewed

the consultant, however, he refused to proceed with his complaint; he feared reprisals in the labor market as well as for his safety and that of his family. During the interview, the consultant was visibly apprehensive, stating that it was very difficult to get work in his country and that if he went forward with his complaint, his identity might be revealed and he would never be hired again. The direct testimony of this consultant was essential to further pursuit of the investigation. OII decided to close the investigation, preferring to respect the safety concerns of the consultant.

The investigation was closed, with the possibility of reopening the case if the consultant decides that he would be willing to go on record.

General Coordinator of a Program Takes a Bribe

A Country Office forwarded information regarding allegations of corruption that appeared in the local press about the General Coordinator of a program to modernize public record-keeping. OII received a video, which had been aired on a nightly news program, showing the Coordinator taking a bribe in his office and then being arrested.

National authorities initiated an investigation against the subject for extortion; the Bank rescinded the coordinator's contract along with all those of the administrative staff of the Executing Agency. The individual has been criminally convicted and incarcerated.

It was agreed that, given his criminal conviction, the individual be permanently debarred from any Bank-financed project.

The following cases reflect the temptation among some consultants and bidders to submit false or altered financial statements, representations or certifications so that they satisfy the Terms of Reference for a Bank-financed project. OII reviews such cases for possible vulnerabilities in project documents and contracts and works with other units within the Bank to close such gaps as they become identified in the process.

Falsification of Financial Statements and Auditor Certification

An Executing Agency held multiple bid rounds to find a qualified contractor. As per the Terms of Reference, a bidding company had to submit documents showing that it met certain legal

and financial standards, including several financial ratios. One company—disqualified as a bidder in an earlier round due to its high debt ratio—submitted altered financial documents in a final bid round with a “corrected” debt ratio, reflecting “tax” adjustments. The company, however, could not produce a tax return that confirmed the adjustment. OII found that the bidder had not only fraudulently altered the information on the financial statements but had also falsified an independent auditor's certification of the statements.

Sanctions proceedings have been recommended.

Falsification of IDB Certificate of Project Completion

As part of a bid document included in a UNDP project, a consultant submitted a certificate of completion purportedly issued by the IDB for one of its projects. The UNDP contacted the Bank to determine whether the certificate was genuine; the Bank found that it was false. The investigation of the matter led to an admission from the consultant that the IDB certificate had been forged.

The individual has been prohibited from future employment with the Bank.

Another type of fraud detected through OII's investigations is the misrepresentation of personal qualifications. Often, people who submit false or altered résumés are taking well-paying, specialized jobs that are critical to the successful implementation of programs that will help the poorest of people. When these individuals succeed, they not only hurt the Bank's reputation but also impair programs that are designed to help the neediest, but can fail because of the lack of proper expertise.

Misrepresentation of Qualifications of Health Professional

A consultant to a program to improve the health conditions of a very poor population lied about her qualifications. The original Terms of Reference required that a candidate should be a health professional with a post-graduate degree in public health. Five years of experience at the administrative level would, however, suffice in lieu of the advanced degree. This candidate submitted two different curriculum vitae; in one she stated that she was a Business Administrator; in the second, she claimed to have an advanced degree in Business Administration.

When interviewed, the subject initially claimed that she had the advanced degree, but had left the certificate at home. Ultimately, she

admitted that while she had taken advanced courses, she had not received the degree and acknowledged that the information on her curriculum vitae was false. Furthermore, her actions on the project had generated multiple complaints resulting in several different cases at OII.

Sanctions proceedings have been recommended.

The Bank pays particular attention to the possible manipulation of the bidding process in Bank-financed projects, e.g. rigging the outcomes. Bank projects can provide attractive business opportunities for participating contractors and concessionaires. Manipulation of these bids can harm project success as well as the Bank's reputation. These next cases highlight some of these issues.

Favoritism and Manipulation of Bidding Process

A Country Office forwarded a press article in which a losing bidder on a Bank-financed infrastructure project claimed that all but one of the eight bidders had been disqualified and that the contract had been awarded to the highest bidder. The bid difference was over a half million dollars. OII confirmed that the

Executing Agency failed to comply with the project's evaluation methodology; that the evaluation criteria had not been clearly and thoroughly detailed in the Terms of Reference; and that there had been unexplained changes in the evaluation committee composition, among other unusual steps.

Moreover, in a second project, the Executing Agency awarded another contract to the same company, revealing similar failures in the bidding process in which all lower bidders had been disqualified. The members of the evaluation committee denied that they had shown favoritism and defended the selection based on the application of the Terms of Reference and the disqualification of the other bidders based on technical issues. Finally, although the winning company evidenced an average billing of \$3.5 million per year, it was determined that the company lacked both a reasonable administrative structure and a reliable accounting system, as required under the contract.

While there was circumstantial evidence to show manipulation of the bidding process, it was found not to be sufficient to demonstrate the existence of fraud or corruption. The findings were passed on to the Bank's regional management and Project Procurement Division.

Fraudulent Bidding and Billing for Computers

An anonymous complainant charged that the coordinator of a project had used false documentation to request reimbursement from the Bank for the purchase of computers. The investigation not only found that the invoices in support of the request for reimbursement were false, but that the entire bidding process had been fraudulent. The evidence was sufficient to demonstrate that the computers had, in fact, already been in the possession of the executor of the project prior to the commencement of the bidding process.

This case is currently pending before the Sanctions Committee.

General Manager was an Inside Appointment and Committed Fraud

OII received an anonymous complaint alleging that the regional Director of a project—designed to improve living standards among the country's poorest population—was not qualified for his position. Further, it was alleged that he was manipulating bidding processes, hiring friends and, in the process, sabotaging community projects. It was determined that, although the Director may have been qualified, he was appointed to

the position by the general manager of the Executing Agency before the hiring process was opened. Further, the Executing Agency had submitted false information to the Bank in order to justify hiring this person. OII also found that the general manager had submitted falsified evaluation sheets to the Bank as proof of a competitive hiring process, listing interviews that had never taken place. However, the investigation found no evidence that he had interfered in local hiring processes.

The recommendations that the expenses related to the regional Director's contract be declared ineligible for Bank financing and that the position be reopened for a competitive hiring process were approved. This matter was also referred to national authorities.

Fraudulent Procurement Based on Insider Information

Four construction companies submitted bids for road and drainage works to be performed in a low-income housing project. One of the bids was precisely 4% lower than the confidential engineer's estimate, commissioned by the Executing Agency—a local government authority. Engineers' estimates are commonly utilized as a guide to the Executing Agency and the Bank to the possible costs of projects against which bids are judged. As per required

procedure, this estimate is kept sealed and under lock and key at the Executing Agency until the official opening of all the bids. All other bids for this project had an expected random relation to the engineer's bid, ranging from 20%-29% above the engineer's estimate. An investigation concluded that the low bidder had obtained insider information regarding the confidential engineering estimate.

The matter is now pending before the Sanctions Committee.

Winning Bidder Plans to Supply Substandard Materials

A losing bidder in a program to improve schools alleged that the winning company did not intend to comply with the specifications of the Terms of Reference. According to the allegation, the winning firm intended to provide substandard, less expensive materials. It was also alleged that an Executing Agency official, in charge of the technical specifications, was aware that the winning firm had substituted materials in a similar, previous project (though one not financed by the Bank).

The investigation found insufficient evidence of fraud or corruption. The Country Office was asked to take steps to ensure compliance with the specifications of the Terms of Reference.

Extortion by Project Staff

A Sector Specialist provided information regarding a report that certain employees of a project were extracting bribes from contractors. OII interviewed a contractor who admitted that he had been required to pay bribes to project staff but was also insistent that he would not provide additional cooperation due to fear of retribution.

Because the contractor was not willing to come forward, no further action could be taken.

Over the course of the year, OII began implementing lessons learned from its investigations, sharing these more broadly with other departments to prevent fraud, corruption and misconduct. By integrating lessons learned throughout the Bank's operations, we strengthen our leadership in improving integrity throughout the region. This case represents a good example of this.

Prevention of Conflict of Interest

A Country Office was about to approve a consultancy contract related to an ongoing infrastructure project. OII received information that employees of the Executing Agency had simultaneously been hired as private consultants in a similar project, not financed by the Bank, but managed by the same Executing Agency—a practice that is prohibited under IDB's conflict of interest rules as set forth in its procurement policies. OII worked with the Legal Department and the Sector Specialist to add language to the contract to make it clear that employees of a project financed by the IDB must observe strict conflict of interest rules.

The Bank agreed that, as part of project supervision, it will scrutinize the selection of consultants to avoid such conflicts of interest throughout the execution of the contract. This process reflects improved collaboration between Country Offices, the Legal Department and OII to assure that lessons learned through OII investigations are incorporated into Bank policies and operations. OII will continue to work with the Project Procurement Division and other related parties to put this language in future contracts of this type.

STAFF MISCONDUCT

Twenty-six percent of cases closed in 2006 were internal, the majority of which fell under the jurisdiction of the Ethics Committee or the Conduct Review Committee.

Bribery to Manipulate Bidding Process

An anonymous complainant e-mailed a Country Office, claiming that Bank staff members were involved in collusive and fraudulent actions that favored one of the bidders for a road project. The complainant claimed to have video proof of this wrongdoing but when OII asked for the evidence, repeatedly, the complainant failed to respond. This complainant also refused to supply contact information to OII for further follow-up.

The case was closed without investigation.

Forged Signature of Country Representative

A Bank employee in a Country Office accepted money to submit a falsified visa request, purportedly issued by the Bank's Country Representative, to the US Embassy to secure a visa for a non-Bank employee. The US Embassy had previously rejected a visa application from this individual who then concocted this scheme with the Bank employee. The Bank employee was arrested and confessed to forging the letter and the Country Representative's signature, and for accepting \$1,200 from the individual for the

scheme. The employee claimed that he had done it for "economic reasons" to take care of family medical problems. The employee pled guilty to criminal charges and was sentenced.

The employee was found to have violated the Bank's Code of Ethics by engaging in fraud and a conflict of interest and the Ethics Committee has advised that the individual has been fired.

Staff Member Benefited from Double Dipping

It was reported that a staff member of the Bank was also a member of the Board of Directors of an entity that was a beneficiary of a Bank loan and non-reimbursable technical cooperation.

The investigation confirmed that the individual was an active member of the Board of the beneficiary organization. The subject had consulted the Ethics Committee as to whether or not he should accept this position. At the same time, however, he failed to disclose to the Ethics Committee full information about the nature of the directorship, including the facts that he had already accepted the position and that it was a paid position. Moreover, after the Ethics Committee concluded that he could not participate in the Board of Directors of the entity, he purported to resign but in fact continued serving.

The investigation found that this subject had violated the Code of Ethics. The matter was referred to the Ethics Committee for its consideration.



IV: HOW OII HELPS PREVENT CORRUPTION

The Inter-American Development Bank Group continues to build and strengthen its comprehensive approach to promote integrity and to prevent fraud and corruption. The mandate and efforts of the Office of Institutional Integrity comprise but one piece of the overall strategy of the Bank Group's efforts. In this regard, OII is tasked with:

- Reviewing the ways in which the Bank promotes ethical conduct internally and identifying ways to improve the mechanisms, practices, regulations and policies that promote and enhance integrity throughout the Bank;
- Supporting the development and implementation of outreach and training activities that disseminate lessons learned from our investigative activities, both within and beyond the Bank;

- Promoting awareness of the practices, policies and tools that Bank staff—as well as borrowing governments and institutions—can utilize effectively in the promotion of integrity and prevention of fraud and corruption;
- Assisting the Bank's programmatic and lending units in their activities that include anti-corruption and integrity components.

Prevention involves using data and knowledge effectively to improve awareness, deter improper behavior and enhance the capacity of the Bank and our borrowers to avoid fraud and corruption and promote integrity. OII strives to fulfill its mandate to promote prevention by working both internally—to help the Bank Group satisfy its fiduciary obligations to prevent the loss of project funds to fraud or corruption—and externally, by supporting efforts to enhance the integrity activities of our member countries.

2006 INTERNAL PREVENTIVE ACTIVITIES

Internal preventive activities at OII are increasingly focused on improving the capacity of the Office to connect the lessons learned from our investigations to the Bank's policies and practices. OII's other activities directed within the Bank include building awareness, communicating policies, disseminating knowledge, improving staff training and assisting other units responsible for integrity and anti-corruption efforts.

Supporting Improvements to Bank Policies and Practices

At the request of the President, OII chairs a working group that is tasked with taking stock of the Bank's anti-corruption activities and diagnostic tools. This exercise is intended to identify opportunities to improve the effectiveness of the Bank's efforts to promote good governance and combat corruption. The results of the working group will be presented to the Bank's leadership in early 2007.

OII is also working together with the Project Procurement Division in conducting

an analysis of fraud and corruption in project procurement to identify red flags indicative of corruption risks. This work is intended to provide a better understanding of the deviations that occur in the procurement cycle and improve the capacity of staff to detect and prevent such deviations before they occur.

Reviewing Ethics and Conduct Mechanisms of the Bank

In 2006, OII has worked closely with the Bank's leadership to assist with revisions to the Bank's ethics and conduct framework. As part of this initiative, OII helped the Bank revise its Code of Ethics and the Procedures of the Ethics Committee, which were implemented in 2006. At the request of the Ethics Committee, OII in conjunction with the Legal Department has supported the development of a new interest disclosure form for Bank staff.

Building Awareness Internally

Along with the adoption of the revised Code of Ethics, in 2006 the Bank also commenced obligatory ethics training for all staff. OII

worked closely with the Office of Learning to develop the training program and to draft Ethics and Conduct Guidelines for staff. All Bank staff will have undergone training by the close of the first half of 2007.

Throughout 2006, OII continued its efforts to educate Bank staff on the Bank's integrity framework and the functions of OII, through presentations to new Bank hires, the counselors of the Executive Directors, the Office of Evaluation and Oversight and the Board of Directors of the Staff Association.

OII periodically invites experts, academics and practitioners to make presentations on topics related to governance, integrity and corruption. These presentations are usually co-organized with other areas of the Bank. Staff members, as well as staff of international organizations, academia and NGOs are invited to attend the presentations.

Enhancing Integrity in Private Sector Lending

As the Bank Group's activities with the private sector have grown, the need to standardize the review and treatment of integrity concerns

in such operations has become evident.

At the end of 2005, the Office of the Private Sector Coordinator—in collaboration with the Office of Institutional Integrity—established a Bank Group task force to recommend a conceptual integrity framework to guide the Bank Group's private sector operations and to develop integrity review procedures and monitoring mechanisms for the Bank Group.

This initiative led to the adoption of new tools for evaluating and mitigating integrity risk throughout the due diligence process for private sector lending activities. It also includes a training component for staff engaged in private sector lending to improve their capacity to analyze integrity issues in the lending process. The training will begin in early 2007.

During the course of 2006, OII was also consulted on several integrity issues identified in connection with private sector transactions. OII provided advice on the risks identified and whether and how they could be mitigated.

2006 EXTERNAL PREVENTIVE ACTIVITIES

External preventive activities include supporting Bank programs to help borrowing member countries foster democratic governance, promote the rule of law and combat corruption. OII also works with other international financial institutions to harmonize policies and procedures. External preventive activities are often implemented through technical cooperation, which includes support in designing programs to prevent corruption and for related training, dissemination of information and other types of technical assistance.

Raising Awareness through Outreach and Communication

OII's annual report is an important vehicle for disseminating information and creating awareness, externally as well as internally. The Report has been distributed to all Country Offices and to a wide variety of organizations interested in governance, transparency and accountability; it is available online to anyone interested in reading or downloading the report.

In 2006, OII conducted missions to Argentina, Colombia, Guatemala, Guyana, Honduras, México, Paraguay, Peru, Trinidad and Tobago, and Uruguay. During these missions, OII staff typically presented and discussed its activities and the Bank Group's integrity initiatives with in-country staff members and with the personnel of executing agencies, civil society and other non-governmental organizations.

Launching the Integrity Website

In 2006, the Bank Group launched a new Integrity website: www.iadb.org/integrity. The site provides visitors with information about Bank-wide internal and external efforts to strengthen integrity and to prevent and detect fraud and corruption. OII's web pages at this site detail our investigative procedures as well as our results and annual reports. There is a "hot button" to make inquiries or to report allegations directly to OII, as well as information on what to report and how.

As more and more individuals throughout our borrowing countries gain access to the Internet, we hope and expect that they will find this website a useful tool in

understanding what constitutes fraud and corruption, as well as to make inquiries and to learn more about the ways in which they can assist in prevention efforts.

Assisting Bank Projects

OII staff was invited to provide input to a peer review process in several IDB-financed projects with integrity and transparency components, including support to Haiti to implement financial disclosure policies for the public sector. Assistance was also provided for a project in Brazil to improve the capacity of national and state legislatures, including access to information for legislators and other stakeholders involved in the lawmaking process.

Additional Outreach Activities

In 2006, to help communicate IDB's integrity policies and programs, anti-corruption efforts and lessons learned, OII made numerous presentations to visiting public officials of borrowing countries, the private sector, academia and other stakeholders.

Supporting Member Country Anti-Corruption and Integrity Efforts

Technical Assistance for Anti-Corruption Programs

OII in conjunction with the Integration and Regional Programs Department/ Regional Technical Cooperation Division (INT/RTC) provides support to regional anti-corruption initiatives, aimed at enhancing the capacity of member countries to prevent corruption and to enhance the capacity to investigate fraud and corruption.

In September, OII provided support for a technical [meeting and workshop](#) on prevention and investigation of corruption that was co-sponsored by the Government of Chile, the [Organisation for Economic Co-operation and Development \(OECD\)](#) and the [Organization of American States](#). The focus of the meeting was to identify concrete steps towards implementation of the [OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions](#) and advancements in mutual legal assistance among countries within and

outside of the Latin America region. This activity is a continuation of two similar workshops organized by OII with support from INT/RTC.

Civil Society Partnerships

OII led the Bank's effort in supporting the [12th International Anti-corruption Conference](#), "*Towards a fairer world: Why is corruption still blocking the way?*" that was held in Guatemala in November 2006 and at which President Moreno delivered one of the keynote speeches. OII worked with the INT/RTC, the Sustainable Development Department, the operational departments of the Bank and the Legal Department to organize specific workshops including:

- A workshop for prosecutors, investigators, members of the judiciary and other investigative agencies on effective investigations of corruption in multiple jurisdictions;
- A workshop on preventing conflicts of interest in the public sector, jointly organized with the OECD and the World Bank;

- An expert panel on monitoring governance at the local level through enhancements to accountability and transparency by strengthening civil society and institutions within local governments;
- A special panel of OII's sister offices at the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development and World Bank to discuss their anti-corruption activities.

The Bank also financed the translation and publication of the Spanish edition of Transparency International's *Global Corruption Report 2006, with Special Focus on Corruption and Health*.

During the Conference, President Moreno signed a joint Memorandum of Understanding with the Department for International Development of the United Kingdom, the World Bank and Transparency International. The purpose of this MOU is to facilitate collaboration in connection with activities supporting good governance and anti-corruption in Latin America and the Caribbean.

Harmonization with Multilateral Development Banks and other International Organizations

A large part of OII's successes in prevention in 2006 had to do with our leadership in building cooperative, collaborative strategies to harmonize policies and procedures for combating fraud and corruption among the world's leading international financial institutions. We also continued our efforts with these sister institutions to improve collaborative working relationships and common strategies for prevention. We discuss these efforts in the next section of our report, *International Leadership*.



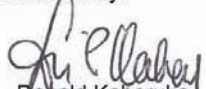
**Joint Statement by the Heads of the
African Development Bank Group,
Asian Development Bank,
European Bank for Reconstruction and Development,
European Investment Bank Group,
Inter-American Development Bank Group,
International Monetary Fund, and
World Bank Group**

Singapore, September 17, 2006 – Today, the leaders of the African Development Bank Group, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank Group, the Inter-American Development Bank Group, the International Monetary Fund, and the World Bank Group agreed on a framework for preventing and combating fraud and corruption in the activities and operations of their institutions. This builds on the work of a joint Task Force established on February 18, 2006 by the leaders of these institutions.

The institutions recognize that corruption undermines sustainable economic growth and is a major obstacle to the reduction of poverty. The leaders have outlined the following joint actions to combat fraud and corruption:

- agreement in principle on standardized definitions of fraudulent and corrupt practices for investigating such practices in activities financed by the member institutions;
- agreement on common principles and guidelines for investigations;
- agreement to strengthen the exchange of information, as appropriate and with due attention to confidentiality, in connection with investigations into fraudulent and corrupt practices;
- agreement on general integrity due diligence principles relating to private sector lending and investment decisions;
- agreement to explore further how compliance and enforcement actions taken by one institution can be supported by the others.

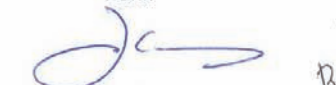
Further, the institutions will continue to work together to assist their member countries in strengthening governance and combating corruption, in cooperation with civil society, the private sector, and other stakeholders and institutions such as the press and judiciary with the goal to enhance transparency and accountability.

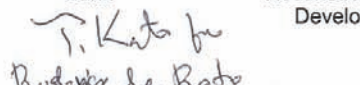

Donald Kaberuka
African Development
Bank

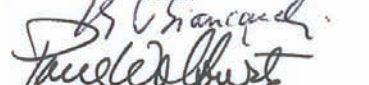

Haruhiko Kuroda
Asian Development
Bank


Jean Lemierre
European Bank for
Reconstruction and
Development


Philippe Maystadt
European Investment
Bank


Luis Alberto Moreno
Inter-American Development Bank


Rodrigo de Rato y Figaredo
International Monetary Fund


Paul Wolfowitz
World Bank

V: INTERNATIONAL LEADERSHIP

The Bank Group has been a leader in building greater collaboration among and between the world's financial institutions to enhance development effectiveness through integrity. By helping to harmonize the relevant principles, policies and tools throughout the financial community, the Bank Group will continue to spearhead efforts towards increased transparency, integrity and efficiencies in fighting corruption.

INTERNATIONAL FINANCIAL INSTITUTION TASK FORCE

At the start of 2006, the heads of the world's major international financial institutions agreed to join together to harmonize efforts to combat corruption and to improve integrity within their operations. This led to the creation of the [International Financial Institution \(IFI\) Task Force](#) comprised of the chiefs of each of the integrity offices for the member institutions. The institutions include the African Development Bank Group, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank Group, International Monetary Fund,

Inter-American Development Bank Group and the World Bank Group.

The work of the IFI Task Force culminated on September 8, 2006 when the heads of each of the member institutions agreed to adopt the Task Force's recommended [Uniform Framework for Preventing and Combating Fraud and Corruption](#).

OIL, with the support of the Legal Departments of both the Bank and the Inter-American Investment Corporation, played a lead role on the Task Force, hosting and chairing its first organizational meeting.

Under the Uniform Framework, the member institutions agreed to:

- Adopt a single set of harmonized definitions of fraud, corruption, coercion and collusion;
- Implement a common set of principles and guidelines for the conduct of investigations;

- Adopt a common framework for pre-transaction due diligence on integrity matters in private sector lending activities, thus striving to eliminate integrity as a competitive factor among the institutions;
- Enhance exchange of information among Task Force members;
- Explore mechanisms for mutual recognition of enforcement actions;
- Improve coordination of efforts to support national anti-corruption and integrity programs.

Through these and future joint activities, the community of international financial institutions intend to join and leverage their individual anti-corruption activities in order to maximize the effect of these efforts worldwide.

OTHER INTERNATIONAL COLLABORATIVE ACTIVITIES

OII has also taken a lead role in developing alliances with other international organizations to increase the impact of anti-corruption activities and leverage results.

Coordination with other Multilateral Development Banks

The Inter-American Development Bank and the World Bank began exploring different areas to enhance harmonization and sharing of practices on matters of governance and anti-corruption and in coordinating programmatic activities. These efforts led to a joint training on anti-corruption and governance for sector specialists and managers from both Banks, conducted in December 2006 and development of special training on collusion scheduled for early 2007.

International Group for Anti-Corruption Coordination

OII represented the Bank at the Eighth Meeting of the [International Group for Anti-Corruption Coordination \(IGAC\)](#). The objective of this meeting was to coordinate better technical assistance needs of countries and approaches to support the implementation of the [United Nations Convention Against Corruption \(UNCAC\)](#) and the establishment of specialized anti-corruption units and bodies. OII was

joined at this meeting by staff from the Legal Department, Operational Departments and the Office of External Relations.

Seventh Conference of International Investigators

This year, the European Bank for Reconstruction and Development hosted the Conference of International Investigators. As a member of the Secretariat responsible for planning and organizing this annual conference, OII worked with OLAF—the European Anti-Fraud Office—to draft a background document on whistleblowers regulations in international organizations. Senior staff from OII participated in the meeting and chaired several of the working sessions.

OECD Meeting on Corruption and Procurement

OII represented the IDB at a meeting on bribery in public procurement hosted by the OECD. The group of experts in attendance is continuing to work together to identify common indicators of corruption in public procurement and catalogue methods to prevent, detect and prosecute bribery. The group intends to identify risk areas that may be mitigated with common approaches by national authorities and international organizations.

VI: THE ROAD AHEAD

Much has been accomplished during OII's first three years to enhance integrity throughout Bank activities, but many challenges remain. The three pillars established in the *Systemic Framework* will continue to set the agenda for OII's work in the years ahead.

In the road ahead, we anticipate significant advancements in the following fiduciary and preventive efforts:

Pillar One—Setting the Standard:

Ethics and Respect in the Workplace

- By the end of 2007, all Bank staff will have received training on the Bank's new Code of Ethics and procedures.
- 2007 will also see the arrival of the Bank's first Ethics Officer and a new Ombudsperson.
- Efforts will also continue to streamline and improve the Bank's policies concerning staff conduct and mechanisms to adjudicate allegations of misconduct.

Pillar Two— Supporting Prevention Efforts:

Project Design and Execution

- OII will expand its exchange of information and collaborative efforts with other departments within the Bank Group to address risk identification and mitigation.
- The Bank will fully implement its new private sector due diligence framework and, all staff involved in private sector transactions will receive training on the new diligence program.
- In conjunction with the Bank's Project Procurement Division, OII anticipates implementing a red-flags diagnostic toolkit designed to help project teams improve their ability to identify and address fraud and corruption in project design and execution.

Harmonization and Coordination

- The Bank's Board of Executive Directors is considering the adoption of the harmonized definitions of fraud, corruption, coercion and collusion recommended by the IFI Anti-Corruption Task Force. (Post-note: these were officially adopted on February 14, 2007.)
- OII will continue to support the Bank's operational activities and work with bilateral donors and international organizations to increase coordinated support for member countries' anti-corruption and transparency activities as well as to implement of the *Inter-American Convention Against Corruption*, the *United Nations Convention Against Corruption* and the *OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*.

Pillar Three—Combating Fraud and Corruption as a Fiduciary Responsibility

Deterrence

- Early in 2007, the Bank Group will begin publishing the identities of firms and individuals found to have engaged in fraudulent or corrupt practices, including any respective sanctions.

Effectiveness

- OII hopes both to reduce the time needed to complete investigations and to increase preventive activities, including adding measures to ensure that lessons learned from investigations are integrated throughout Bank operations, and as enhancements to project design and execution.
- Under the direction of the President, the Bank's anti-corruption mechanisms will be subject to an external review in an effort to ensure that OII and the IDB Group are doing all that is possible to combat, as well as to prevent, corruption in Bank-financed operations, while protecting the rights of all involved, assuring speedy resolution of cases and improving integrity within program and project implementation.

ANNEX: HOW OII DOES ITS INVESTIGATIVE WORK

The investigative process begins with information that OII receives. Initially all contacts to OII are classified as inquiries.

An initial assessment determines whether, according to the content, the inquiry is a consultation or is an allegation.

A consultation is handled as such—OII will provide information to assist in resolving a question regarding corruption or promoting integrity. Allegations are reviewed individually, as well as reported to the [OCFC](#). Specific details of the allegations and the identity of complainants are kept confidential.

With a new allegation, OII determines whether it is best categorized as an issue of fraud or corruption or as an issue of misconduct. Issues of fraud or corruption are generally external matters while issues of misconduct are internal, involving staff violations of either the Code of Ethics or Respect in the Workplace Policy. Any allegation of fraud or corruption involving Bank staff is also considered an internal matter.

The distinction between internal and external matters is important, as the procedures for investigation differ.

THE INTERNAL ALLEGATIONS PROCESS

Internal allegations fall into three general categories. If an internal allegation states facts that do not involve possible fraud or corruption, but might constitute a violation of either the Bank's Code of Ethics or of Respect in the Workplace Policy, OII refers the allegations to the [Ethics Committee](#) or the [Conduct Review Committee](#), as appropriate. If either committee feels that further investigation is required, it may request that OII conduct an investigation. The Committees may also request investigations from other units of the Bank or by outside experts, depending on the nature of the allegation. The results of OII's investigations are sent to the relevant Committee for review and further action.

Other internal allegations received by OII that do not state claims under the above Code or Policy are reviewed to determine if they should instead be referred to the Human Resources Department or another Bank unit. Certain allegations, for example, that may not qualify as misconduct per se may instead reveal possible issues for senior management e.g. violations of other Bank regulations.

Finally, allegations of fraud or corruption against Bank staff remain within the OCFC's jurisdiction and are subject to investigation by OII. All investigations involving Bank staff follow the Rules for Bank Administrative Investigations, instituted in 2003 for internal matters.

THE EXTERNAL ALLEGATIONS PROCESS

In a preliminary review, OII analyzes each allegation that raises any concern of possible fraud or corruption. This initial analysis aims at gathering sufficient information to determine whether a full investigation is necessary. The preliminary review is set up to answer three threshold questions:

- Does the allegation concern any activity financed by the Bank Group?
- If the allegation is determined to be true, does it constitute a violation of the Bank Group's prohibition against fraudulent or corrupt practices?
- Does the allegation provide sufficient credible information to warrant an investigation by OII?

OII undertakes an investigation only in those cases in which the answer is "Yes" to all three questions. For cases that do not meet this threshold, the Office recommends to the OCFC that the case be closed. However, allegations closed at this preliminary stage may still raise issues for consideration under other Bank Group policies and regulations. For instance, allegations may assert procurement policy violations, contract disputes, or other matters more appropriately addressed by project supervisors. In such cases, OII recommends that the issue be referred to the relevant department or manager.

It is important to note that while OII retains the independent authority to determine whether an allegation of fraud or corruption should be investigated, the OCFC is informed of all decisions to investigate. In fact, the OCFC must approve any decision *not* to investigate an allegation as well as to *close* an investigation. Together, these measures help guarantee the integrity of the system in protecting the rights of all those involved, whether as complainants or as subjects of an investigation, as well as the ability of the Bank to pursue a potential violation of its policies.

As a first step, full investigations into allegations of violations of the Bank's anti-corruption regulations generally involve contacting the staff responsible for supervising the project or activity, including appropriate Country Office staff. At the same time, OII staff will collect all relevant information related to the allegation that is available to the Bank. This includes project information, procurement documents and other types of documents that help determine the facts and the credibility of the allegation. Then, in most cases, OII staff will travel on mission to conduct field interviews and investigations. The Bank Group's investigations are strictly

administrative in nature; they seek only to determine whether the Bank Group's policies have been violated. They do not attempt to determine the existence of violations of law.

At the end of an investigation, OII classifies a case as substantiated, unsubstantiated, or unfounded. A case is substantiated when the evidence sufficiently supports the allegation that a fraudulent or corrupt practice, as defined by the Bank, has occurred. Unsubstantiated cases are those in which the evidence is insufficient either to confirm or deny the original allegation. Lastly, cases are classified as unfounded when the allegations are determined to be untrue.

After classifying a case, OII submits a report of its investigative findings to the OCFC. If OII has concluded that an act of fraud or corruption has occurred, it may also recommend that the OCFC consider sanctions. The OCFC will make sanctions decisions directly in private sector financing matters; for public sector matters, the OCFC refers the matter to the [Sanctions Committee](#) under the new [Sanctions Procedures](#) implemented in 2006 as described below.

The New Sanctions Procedures

In September 2006, the IDB implemented new Sanctions Procedures for external, public sector financing cases. These new procedures are intended to strengthen the existing rights of all parties involved in external investigations (i.e. those involving third parties), while also ensuring that the IDB is able to perform its investigative function effectively. These procedures also reinforce the Bank's objective to make certain that sanctions processes are fair and transparent, as per the standards for integrity within the Bank Group.

Under the new Sanctions Procedures, OII maintains the responsibility for receiving and investigating allegations of fraud or corruption in public sector financing cases. At the conclusion of each investigation, OII reports its findings to the OCFC, including any recommendation to initiate a sanctions procedure.

If the OCFC agrees that the evidence is sufficient to warrant a sanctions proceeding, it may direct OII to prepare a Notice of Charges

for the subject and refer the matter to the Sanctions Committee for resolution. It may also temporarily suspend the respondent's eligibility to participate in IDB Group-financed activities.

The Notice of Charges includes the specific allegations of fraud or corruption, a summary of the facts relevant to the basis for the allegations and all evidence relevant to the determination of possible sanction. It also contains any mitigating evidence that OII may have along with the list of possible sanctions—ranging from reprimand to permanent debarment.

The Sanctions Committee is responsible for making the final determination as to whether or not the evidence is sufficient to support a finding of fraud or corruption and for making final decisions on appropriate sanctions.

In this role, the Secretary of the Sanctions Committee is responsible for delivering the complete Notice of Charges to each respondent. Each respondent, in turn, has the opportunity to reply to the Notice of Charges. OII analyzes this reply and may submit an evaluation that is sent to the respondent,

who is then given a final opportunity for rebuttal. Throughout this correspondence, the respondent may present evidence and arguments regarding mitigating circumstances and other facts relevant to the Bank's ultimate decision concerning an appropriate sanction.

If the Sanctions Committee finds, based on this process, that the respondent violated Bank Group anti-corruption policies, it may impose any sanction that it deems appropriate. These include:

- A reprimand in the form of a formal letter of censure of the Respondent's behavior.
- A declaration that an individual, entity or firm bidding for or participating in a Bank-financed project is ineligible to be awarded contracts under Bank-financed projects except under such conditions as the Committee deems to be appropriate.

The Bank Group defines fraudulent or corrupt practices* as follows:

- A **corrupt practice** is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party;
- A **fraudulent practice** is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation;
- A **coercive practice** is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to improperly influence the actions of a party; and
- A **collusive practice** is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

*as adopted by the Board of Executive Directors on February 14, 2007

- A declaration that an individual, entity or firm is ineligible, either permanently or for a stated period of time, to be awarded and/or participate in contracts under Bank-financed projects.
- The imposition of fines to reimburse the Bank for costs associated with investigations and/or the proceedings.

Beginning in 2007, the names of those found to have violated the policies will be made public, along with the type and length of sanction imposed.

In addition to the sanctions process, if it appears that the laws of a member government may have been violated, OII may inform the OCFC, which retains the authority to make a recommendation to the President of the Bank Group that the matter be referred to appropriate governmental authorities.

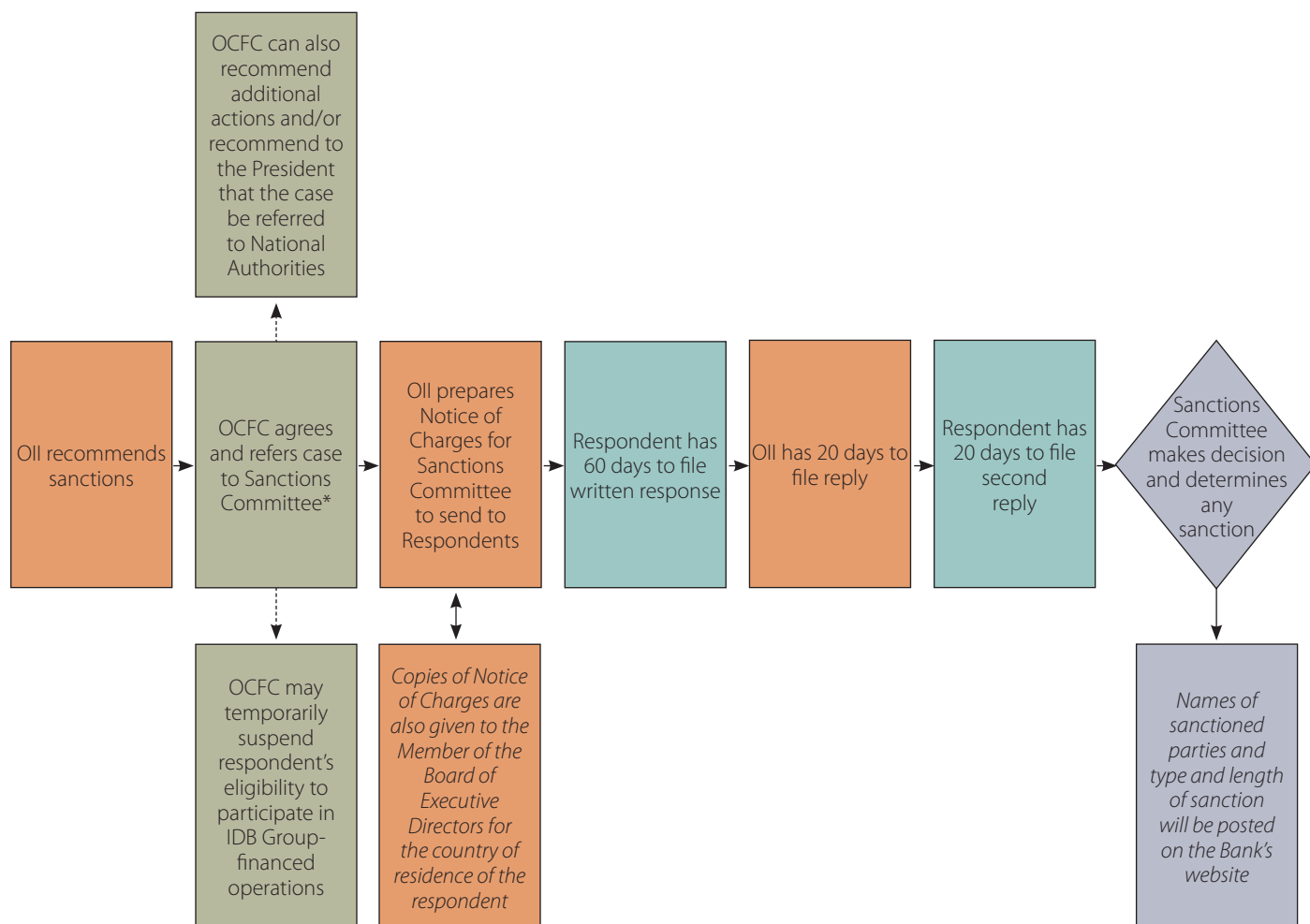
Likewise, in the context of an IIC-financed project, the OCFC—together with IIC management—have the responsibility to adopt a wide array of measures, e.g. excluding

the persons involved from obtaining future financing from the Bank Group.

If the OCFC determines that there is evidence of fraud or corruption in connection with a project financed by another international or multinational organization, including another development bank, or by an agency of a member government that promotes international development, it may directly, or through OII, share the relevant information.

The Bank Group may also take additional measures as a result of OII's investigative findings, ranging from suspension of disbursements to termination of contract; it may cancel the part of the financing pertaining to the procurement of various [goods and services](#); or it may accelerate the loan or cancel undisbursed balances. These may be done either with or independent from any other sanctions.

THE SANCTIONS PROCESS



OCFC: Oversight Committee of Fraud and Corruption

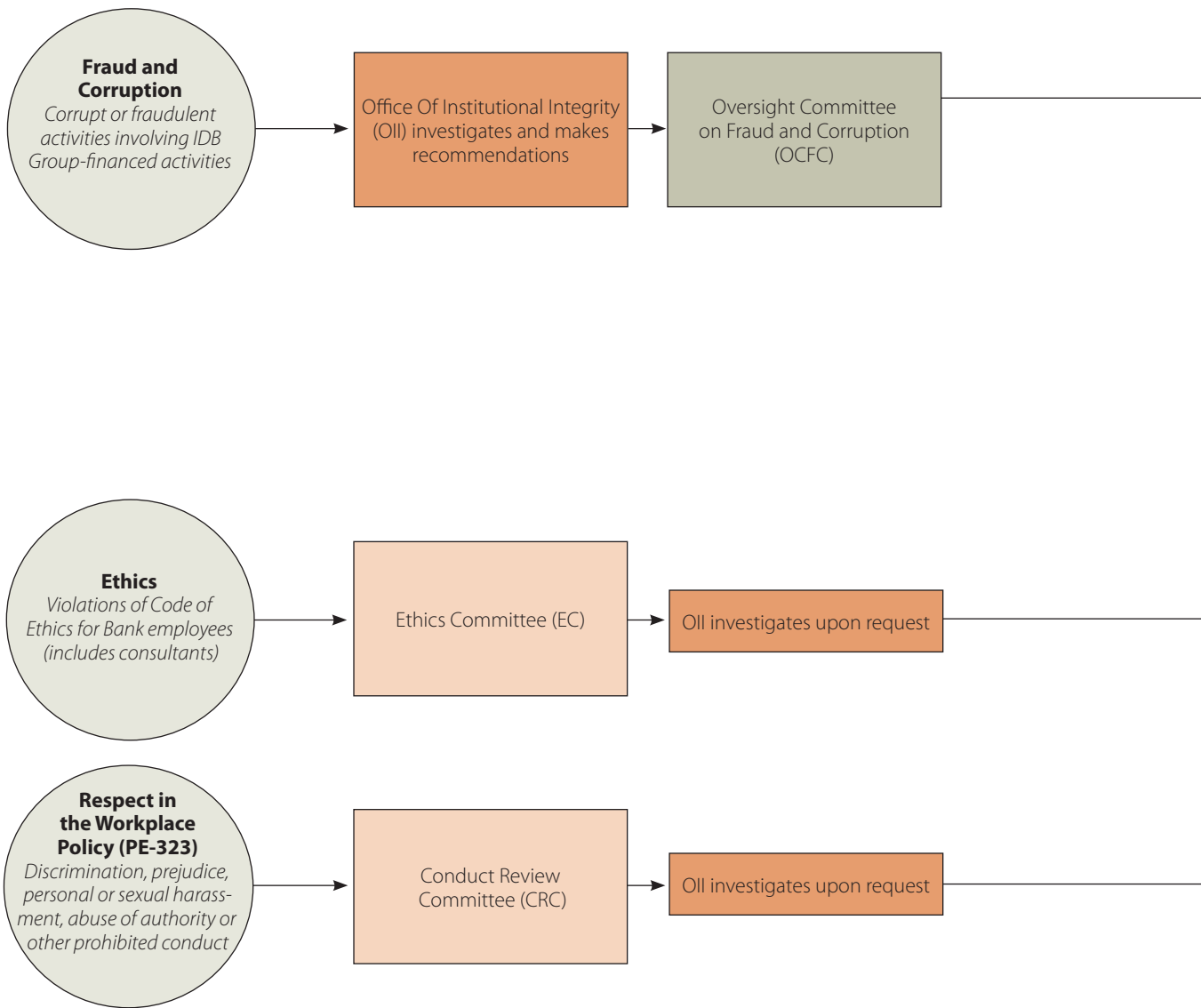
OII: Office of Institutional Integrity

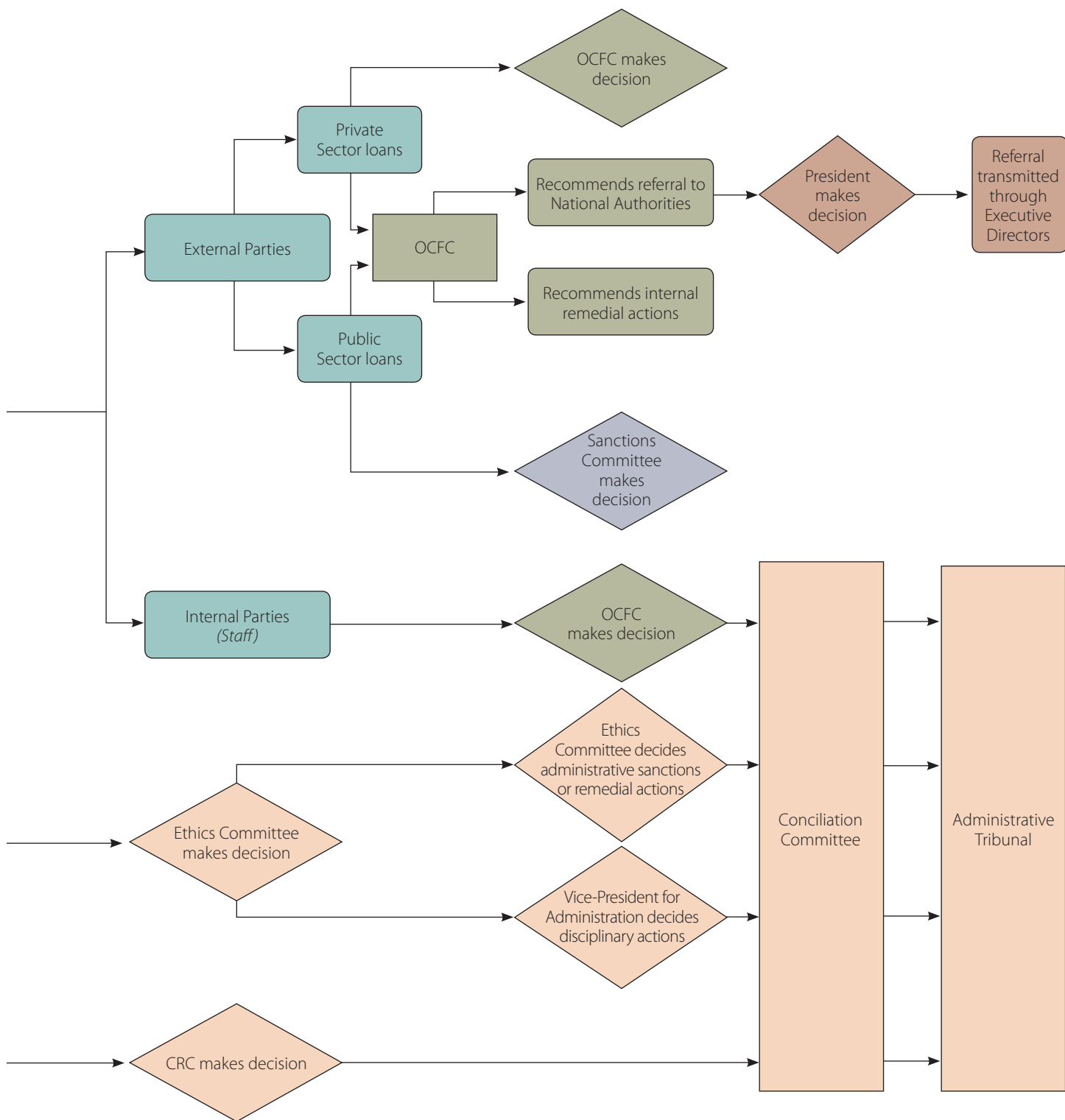
Respondent

Sanctions Committee

* Cases involving private sector lending activities or investment by the Multilateral Investment Fund are not referred to the Sanctions Committee; rather, OCFC retains jurisdiction throughout the process

IDB GROUP INVESTIGATIVE PROCESS





HOW TO REPORT

Allegations of fraud or corruption can be reported confidentially and securely:

e-mail:	ALLEGATIONS@idbfc.org
phone:	See chart below
fax:	1-202-312-4029
regular mail or in person:	Office of Institutional Integrity Inter-American Development Bank 1300 New York Avenue NW, Stop W1212 Washington, DC 20577 USA

Mail addressed to OII should be marked *"Personal and Confidential."*

Allegations may also be made to the Bank Group President, vice-presidents, managers, senior management of the IIC, MIF, or to the IDB Group Country Office Representative in each of its borrowing member countries, as well as to the Bank representatives in Europe and Asia. Allegations of staff misconduct should be reported to the secretary of the Ethics Committee or the secretary of the Conduct Review Committee.

What Happens Next

After a report is filed, all allegations are reviewed by OII and reported to the Oversight Committee on Fraud and Corruption (OCFC), **keeping specific details and complainant identities confidential.**

OII conducts a preliminary review of cases of alleged fraud and corruption before beginning an investigation, asking the following questions:

- Does the allegation concern any activity financed by the Bank Group?
- If the allegation were true, would it constitute a violation of the Bank Group's prohibition against fraudulent or corrupt practices?
- Does the allegation provide sufficient credible information to warrant an investigation by OII?

If the answer to each of these questions is yes, OII may conduct a full investigation and report its findings to the OCFC for a determination of whether the matter should be referred to the Sanctions Committee and what further action, if any, is warranted.

HOW TO USE THE INTERNATIONAL TOLL FREE HOTLINE

Step 1: Dial the access code provided below for the country you are calling from.

Step 2: You will be asked to dial or provide the number that you would like to call.

Step 3: Dial or provide the number 877-223-4551

COUNTRY	ACCESS CODE	COUNTRY	ACCESS CODE	COUNTRY	ACCESS CODE	COUNTRY	ACCESS CODE
Argentina	0-800-555-4288	Colombia	01-800-911-0010	Haiti	183	Peru	0-800-50-000
Bahamas	1-800-872-2881	Costa Rica	0-800-0-114-114	Honduras	800-0-123	Suriname	156
Barbados	1-800-872-2881	Dominican Rep.	11 22	Jamaica	1-800-872-2881	Trinidad & Tobago	1-800-872-2881
Belize	811	El Salvador	800-1785	Mexico	01-800-288-2872	United States	1-800-225-5288
Bolivia	800-101-110	Ecuador	1-800-225-528	Nicaragua	1-800-0174	Uruguay	000-410
Brazil	0800-890-0288	Guatemala	99 99-190	Panama	800-0109	Venezuela	0800-2255-288
Chile	800-225-288	Guyana	159	Paraguay	008-11-800		

To view the full list of countries visit our website at: www.iadb.org/oii

**“There is no
development
without integrity.”**

*Luis Alberto Moreno, President
IDB Group*

**Office of Institutional Integrity
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