Institutional Integrity

IIC   IDB   MIF FOMIN

THE INTER-AMERICAN DEVELOPMENT BANK GROUP

The Inter-American Development Bank (IDB) was established in 1959 to promote development throughout Latin America and the Caribbean.

The IDB Group, which includes the Inter-American Development Bank, the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF), 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 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 IIC is a development institution established in 1984 under the auspices of the IDB to promote the economic development of its Latin American and Caribbean member countries through financial support for private enterprise. It particularly targets small and medium-sized companies that have difficulty obtaining financing from other sources on reasonable terms. The MIF began operation in 1993 to promote economic growth with innovative projects targeting poverty reduction through private-sector development, particularly in microenterprises and small businesses. As successor to the MIF, MIF II was authorized and founded in March 2007. MIF II is more specifically focused on economic growth and poverty reduction.

To learn more about the IDB Group, please visit our websites:
www.iadb.org
www.iic.int
www.iadb.org/mif

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MOHAWK

GREENING THE IDB

FROM THE PRESIDENT

In addition to financial contributions, demand for assistance to our countries includes, technical assistance and knowledge products to ensure that operations are executed efficiently and with integrity. Without these components, our development objectives are harder to meet. That is the Bank's position, and we bear it in mind especially in times of crisis. Corruption weakens democratic institutions and discourages investment and job creation. Corruption is intolerable not just from a moral standpoint; it directly jeopardizes the mission of our organization.

The Bank's approach to this issue combines integrity within the institution and its operations with assistance to our countries in their efforts to prevent and control corruption.

Since its creation in 2004, the Office of Institutional Integrity (OII) has played a key part in ensuring integrity in the activities we finance. OII receives and investigates reports of practices prohibited by the Bank. As the data in this report shows, Bank staff and clients are among the main users of this mechanism. The outcomes of OII's investigative work ultimately lead to sanctions imposed by the Sanctions Committee, which the Bank releases to the public. Public notice of sanctions has a strong dissuasive effect and helps safeguard the integrity of our operations.

OII investigations are supplemented by prevention activities supporting both sovereign-guaranteed operations and those involving the private sector. Member country and operational area demand for the lessons learned from OII investigations and knowledge on how to mitigate identified risks increased over the course of the year. As part of its prevention efforts, OII also provides assistance to the units responsible for transactions with the private sector, to ensure that their projects meet the highest standards of integrity.

In 2009, the Bank began to implement the recommendations of the "Report Concerning the Anticorruption Framework of the Inter-American Development Bank", which was prepared by an external review group led by Dick Thornburgh and Jorge Santistevan de Noriega. The recommendations included greater autonomy for OII, which was elevated to the category of independent advisory office, the strengthening of protections for whistleblowers and witnesses, the creation of the Case Officer position, and the strengthening of the Sanctions Committee.

To complement its investigative efforts, in 2010 OII will devote more resources to help countries promote their own corruption prevention and investigation programs across the various sectors in which the Bank operates.

We believe in the ongoing harmonization of our policies with peer organizations, as well as sharing best practices and lessons learned. Thus, OII's contribution is critical to ensure that we work together, as international agencies, in the investigation and prevention of corruption.

The IDB Group honors its commitment to strictly adhere to the highest standards of integrity. Holding ourselves and those with whom we work to the principles of trust, accountability, and transparency is inseverably tied to our institution's true calling.

Luis Alberto Moreno

ABBREVIATIONS

AAF	Anticorruption Activities Fund
ACP/GST	General Services & Travel Section
AUG	Office of the Executive Auditor
CAN	Country Department Andean Group
CAN/CBO	Country Office in Bolivia
CID/CBL	Country Office in Belize
CSC/CPR	Country Office in Paraguay
EXR	Office of External Relations
ICF	Institutional Capacity and Finance Sector
ICF/ICS	Institutional Capacity of State Division
IDB Group[1]	Inter-American Development Bank, Multilateral Investment Fund, and Inter-American Investment Corporation
IDB	Inter-American Development Bank
IFI	International financial institution
IIC	Inter-American Investment Corporation
IRR	Integrity Risks Reviews
KNL	Knowledge and Learning Sector
LEG	Legal Department
MIF	Multilateral Investment Fund
OCFC	Oversight Committee on Fraud and Corruption
OII	Office of Institutional Integrity
OMJ	Opportunities for the Majority Sector
PPMR	Project Performance Monitoring Report
PRE/PCY	Office of the Presidency
SCF	Structured and Corporate Financing Department
SCL	Social Sector
SCL/SPH	Social Protection and Health Division
VPC/PDP	Operations Procurement Office

[1] The IDB Group comprises three institutions: the Inter-American Development Bank (IDB), the Inter-American Investment Corporation (IIC), and the Multilateral Investment Fund (MIF). The IDB and IIC are public international institutions, whereas the MIF is a trust fund administered by the IDB. As described in this report, OII provides services to all three institutions.

CONTENTS

I. INTRODUCTION

The Office of Institutional Integrity (OII), created in 2004, receives and investigates allegations of prohibited practices in IDB Group-financed activities.[2] OII investigations follow the principles adopted by the International Financial Institutions Anti-Corruption Task Force.[3]

Additionally, OII conducts prevention activities, primarily drawing information from investigations and other sources in order to identify risks, strengthen the IDB Group's fiduciary capacity, and ensure that operations are executed in a context of integrity so that our clients can meet their development objectives.

OII also assists the IDB, MIF, and IIC in avoiding integrity risks in their private-sector activities.

The IDB's integrity program is derived from the document "Strengthening a systemic framework against corruption for the Inter-American Development Bank,"[4] which the IDB's Board of Executive Directors adopted in 2001. The program is based on three distinct, but closely-related areas:

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

OII's main function is to support activities in the second area through the investigation and prevention of practices prohibited by the IDB Group. OII also conducts activities in the other areas. For example, OII investigates internal cases of fraud and corruption upon the request of the Ethics Officer, as well as supports initiatives of the Institutional Capacity of the State Division (ICF/ICS), a unit of the Institutional Capacity and Finance Sector.

In 2009, OII completed its sixth year of operation. A major development this year was its involvement, along with other divisions of the IDB, in the action plan to implement the recommendations of the external review of the IDB's Anticorruption Framework[5], which was conducted in 2008.

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2 See page 7 for definitions of prohibited practices.
3 http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=832313
4 http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=210073
5 http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1824265

PRINCIPAL CHANGES AND RESULTS

Some of OII's principal accomplishments in 2009 are described below.

OII - INDEPENDENT UNIT

OII, formerly a unit within the Office of the Presidency (PRE/PCY), was elevated to the category of an independent advisory office within the IDB Group's basic organizational structure.

SHORTER TIME FRAME OF THE INVESTIGATION PROCESS

As in previous years, OII focused its efforts on improved case management and shortening the duration of the investigative process. In 2009, OII received 309 inquiries and completed 152 investigations. The Sanctions Committee made final determinations in the cases submitted to it by the Oversight Committee on Fraud and Corruption (OCFC), further expanding the List of Sanctioned Firms and Individuals published by the IDB Group since 2007.

EXPANDED AND STRENGTHENED PREVENTION TOOLS

To provide strategic information on how to identify and mitigate integrity risks, OII increased its number of Integrity Risks Reviews (IRRs) for countries and sectors. OII also continued to train fiduciary specialists on the use of the Red Flags Matrix. Both tools enhance transparency and support the prevention and control of integrity risks in IDB Group-financed activities.

SUPPORTED PRIVATE SECTOR AND NON-SOVEREIGN GUARANTEED OPERATIONS UNITS OF THE IDB GROUP

In 2009, under the coordination of the Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations (VPP), OII formed part of a working group that reviewed and updated the procedures to analyze and prevent integrity risks in non-sovereign guaranteed operations. OII also provided technical assistance to investment teams, responding to 25 consultations on specific integrity and reputation issues in private sector and non-sovereign guaranteed operations.

UPDATED AND IMPLEMENTED COMMUNICATION AND DISSEMINATION STRATEGIES

Seeking to improve knowledge of the IDB Group's integrity policies within the institution and among executing agencies, contractors, and civil society, OII expanded its awareness-raising activities through its strategic communication plan. The plan is supported by the Office of External Relations (EXR), the Design Unit of the General Services Section (ACP/GST), and the Knowledge and Learning Sector (KNL).

II. INVESTIGATIONS

OII is responsible for investigations related to acts of fraud and corruption in activities financed by the IDB-Group. If the evidence is sufficient to determine that a firm or individual has committed a prohibited practice, as defined by the Bank, OII may recommend that the OCFC refer the case to the Sanctions Committee. Once the parties have had sufficient opportunity to answer, produce evidence, and respond to OII's findings, the Sanctions Committee may determine whether a sanction is warranted. The sanction may take the form of a reprimand or a debarment of the person or firm from participating in IDB Group-financed activities. The investigation and sanction process is further explained on the OII website.[6]

This chapter contains information on the inquiries (consultations and allegations) that OII received in 2009, comparative information from previous years, a summary of the case flow (from the preliminary analysis stage through resolution), the resulting sanctions, and examples of cases and outcomes, among other data.

INTERPRETING OUR DATA
INQUIRIES, CONSULTATIONS, AND ALLEGATIONS

In 2009, OII received 309 inquiries, of which 163 were classified as allegations, and the remaining 146 as consultations. Of the 146 consultations, 25 concerned integrity issues in non-sovereign guaranteed operations.

FIGURE 1.
TOTAL INQUIRIES RECEIVED 2004-2009
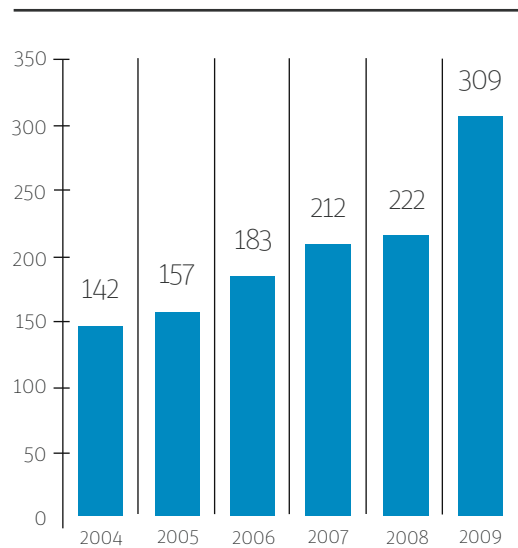
The continued growth in consultations over the years indicates that the integrity system employed by the IDB Group is increasingly recognized as a resource in preventing fraud and corruption. Specifically, one factor in this increase is a communication strategy that made more information on prevention activities available and increased the visibility of the IDB Group's List of Sanctioned Firms and Individuals.

SOURCES OF NEW ALLEGATIONS

In 2009, 15% of all new allegations were submitted anonymously; 11% were reported by IDB Group staff; and the remaining 74% were made by third parties.

FIGURE 2.
SOURCES OF ALLEGATIONS 2004-2009

Legend:
- Anonymous
- Bank Staff
- Non-Bank Staff
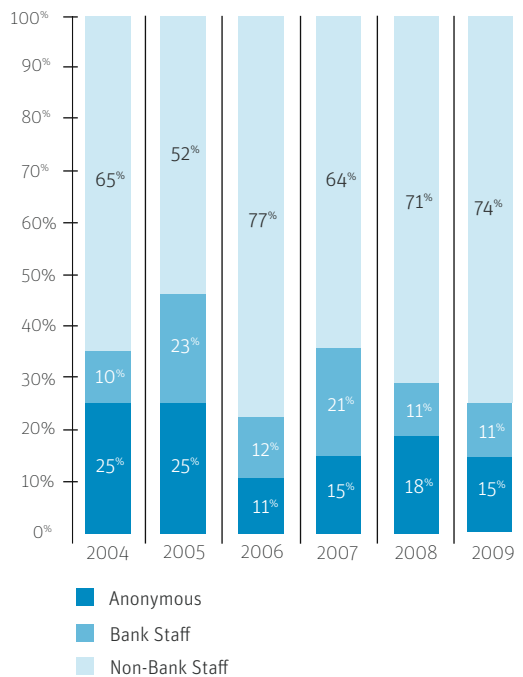
SUBMISSION OF NEW ALLEGATIONS

Parties may submit inquiries relating to potential instances of fraud and corruption through several different channels of communication, including e-mail, website, postal mail, telephone, fax, hotline, and walk-in.[7] Figure 3 provides a breakdown of how parties have utilized these channels to submit allegations over the past four years.

FIGURE 3.
HOW ALLEGATION WERE SUBMITTED 2006-2009

Legend:
- Web Site
- Walk-In
- Telephone
- Regular Mail
- Hot Line
- Fax
- E-mail
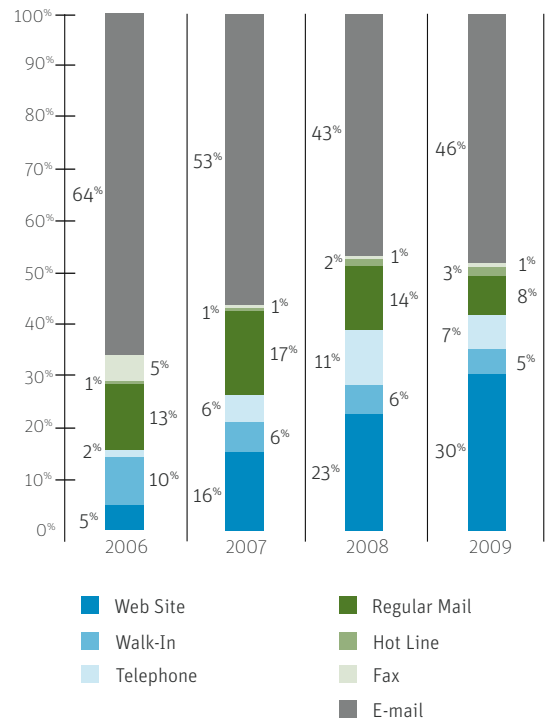
[7] Information on how to contact OII is provided on page 26.

As in previous years, online (electronic) methods, and in particular the website, were the most commonly used methods to contact OII . In 2009, 76% of all allegations were submitted electronically.

CONFIDENTIALITY OF THE INVESTIGATIVE PROCESS[8]

The IDB Group's safeguards for confidentiality in investigations include:

» The IDB Group protects the confidentiality of complainants;

» All staff involved in an investigative 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 IDB Group accepts anonymous allegations.

PROTECTION FOR WHISTLEBLOWERS AND WITNESSES

Maintaining the integrity of the IDB's administration and operations, including the IDB Group's systems for administrative investigations and resolution of disputes,requires the active support of all IDB Group employees.

To ensure that staff members are confident that they can come forward without repercussion, the IDB has a staff rule, "Protection for Whistleblowers and Witnesses," that prohibits reprisal against a staff member for having submitted a complaint or participated in an investigation.

One recommendation of the Report Concerning the Bank's Anticorruption Framework being instituted in 2010 will expand this practice to include third parties. The Bank may notify the national authorities when it receives allegations of reprisal by or against third parties, involving IDB Group financed activities.

EXTERNAL VERSUS INTERNAL ALLEGATIONS

External allegations relate to issues of fraud or corruption in IDB Group financed activities, but do not involve IDB Group staff. Internal allegations are those involving IDB Group staff in potential violations of the Code of Ethics and Professional Conduct.[9]

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8 Confidentiality generally means that the distribution of information shall be limited to those IDB officers who require knowledge of a matter in the performance of their official functions. The sharing of information is subject to the IDB's internal policies and procedures, including the policies on the disclosure of information. Persons dealing with OII are free to ask any questions regarding the treatment of the information they may provide.
9 http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1558759

OII refers the internal allegations of possible violations of the Code of Ethics and Professional Conduct that it receives to the Ethics Officer, who has the authority to enforce the code. If deemed necessary, the Ethics Officer may request that OII investigate the matter and present its findings.

In 2009, 84% of the allegations submitted to OII were external, and the remainder internal. Figure 4 shows the percentage of internal and external allegations received since OII's inception.

The external investigations in 2009 were of various types, although, as in previous years, fraud and corruption, representing 69% of the total, were the most frequent violations. It is important to note that OII's bases its initial classification of allegations on the information contained in the allegation. Over the course of an investigation, and as more information about the case becomes known, OII may modify its initial classification. Additional violations may also come to light during an investigation.

Figure 5 shows the types of allegations investigated in 2009 as compared with the past three years.

FIGURE 4.
EXTERNAL VERSUS INTERNAL ALLEGATIONS
2004-2009

FIGURE 5.
TYPES OF EXTERNAL ALLEGATIONS
INVESTIGATED 2006-2009
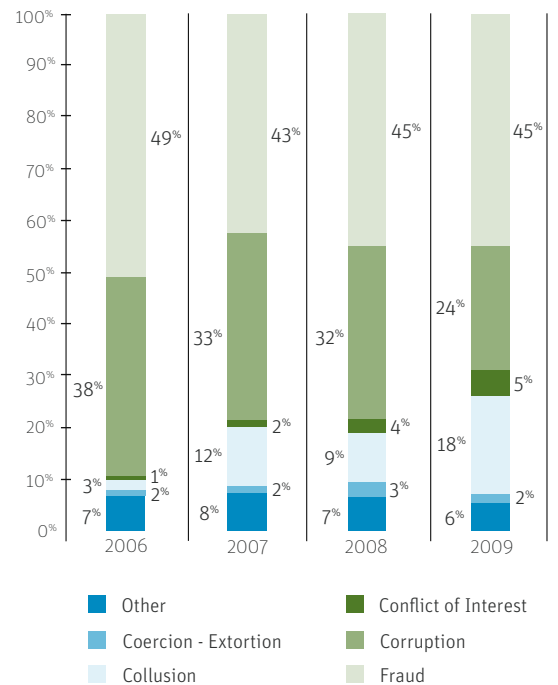
DEFINITIONS

The Bank defines the relevant terms as follows:

» A corrupt practice is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence 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 in order 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 property of the party to 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 to influence improperly the actions of another party.

These definitions were developed to address the most common types of corrupt practices and are not meant to be exhaustive. The Bank has the authority to act in similar cases of fraud and corruption, even if not explicitly included in these definitions.

EXTERNAL AND INTERNAL CASES COMPLETED IN 2009

OII began 2009 with 69 pending cases, and opened 163 new cases over the year. At the same time, OII completed 152 investigations—leaving 80 active cases open as of December 31. Of the cases completed in 2009, OII closed 61 at the preliminary stage and 91 after a full investigation. Sixteen cases included a recommendation to commence sanctions proceedings, and 10 recommended referral of the findings to national authorities.

A total of 24 cases in 2009—nearly 16% of new cases—were internal. OII referred these cases to the Ethics Officer, who asked OII to investigate seven of them. OII completed investigations of these seven cases over the course of the year.

TABLE 1.
ACTIVE CASES 2009

	Internal	External	Total
Cases pending from previous year	2	67	69
New cases	24	139	163
Total active cases	26	206	232
Cases completed	(26)	(126)	(152)
Cases pending at year's end	0	80	80

TABLE 2.
CASE FLOW 2004-2009

	2004	2005	2006	2007	2008	2009
Cases pending from previous year	67	117	111	123	97	69
New Cases	142	138	149	136	122	163
Total active cases	209	255	260	259	219	232
Cases completed	(92)	(144)	(137)	(162)	(150)	(152)
Cases pending at year's end	117	111	123	97	69	80

CASE RESULTS

In 2009, OII emphasized giving priority to its oldest cases. All active investigations pending at year-end were received in 2009.

As explained below, OII's full investigations may result in any of three possible outcomes: substantiated, unsubstantiated, or unfounded. When OII considers an allegation to be substantiated, it may request that the OCFC refer the case to the Sanctions Committee. On the other hand, if OII considers the allegation to be unsubstantiated or unfounded, it notifies the OCFC of that conclusion and, with the OCFC's agreement, closes the case.
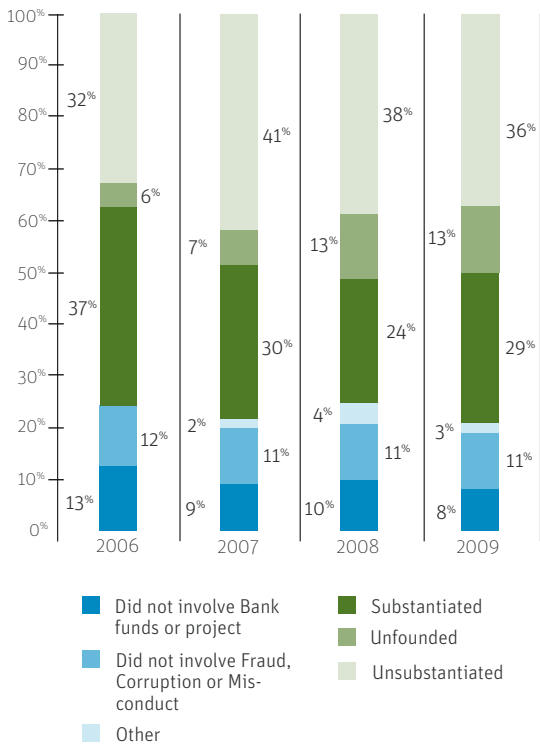
WHAT DOES IT MEAN IF A CASE IS SUBSTANTIA-TED, UNSUBSTANTIATED, OR UNFOUNDED?

At the end of an investigation, OII classifies a case as substantiated, unsubstantiated or unfounded. A case is determined to be:

» Substantiated when the evidence is sufficient to support a finding that the alleged prohibited practice, as defined by the IDB Group, has occurred;

» Unsubstantiated when the evidence is insufficient either to confirm or deny the original allegation; or

» Unfounded when OII determines the allegation to be untrue.

OII found seven of the completed internal cases that were subject to a preliminary or full investigation to be substantiated. Figure 6 describes the results of the 126 external investigations completed by OII (including cases resolved by preliminary inquiry and those that were fully investigated). In 29% of the cases investigated in 2009, OII found evidence to substantiate the allegations.

FIGURE 6.

FIGURE 6.
OUTCOME OF INVESTIGATIONS 2006 - 2009

OII referred approximately 37% of its reports involving unfounded or unsubstantiated cases to different units within the IDB or to outside agencies, as shown in Figure 7.

FIGURE 7.
REFERRALS FOR UNFOUNDED OR
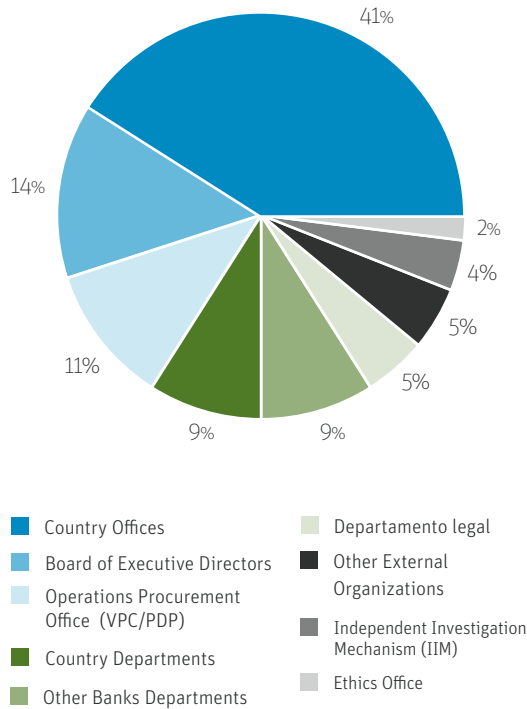UNSUBSTANTIATED ALLEGATIONS 2009

Even when the outcome of the investigation shows that the allegations were unfounded or unsubstantiated, OII's prevention section analyzes the evidence collected to identify integrity risks and provide lessons learned to other IDB departments. In 2009,

SANCTIONS

When OII concludes that a case is substantiated, it may recommend that the OCFC forward the case to the IDB's Sanctions Committee. The Sanctions Committee, and in some cases the OCFC itself, will determine whether or not the investigated firm or individual violated the IDB Group's rules prohibiting fraud, corruption, collusion or coercion, and whether administrative sanctions are warranted. The Sanctions Committee may impose a range of sanctions, from letters of reprimand to permanent debarments.

Before making a determination, the Sanctions Committee notifies the investigated firm or individual and provides an opportunity to respond to the charges with all relevant information within a set period of time. The Sanctions Committee and OII review this information and reply to the response of the investigated firm or individual, who then has a second opportunity to respond. Only then does the Sanctions Committee make a determination.

Debarred firms and individuals are ineligible to participate in IDB Group-financed contracts. Debarments may be permanent or temporary. The Sanctions Committee may also impose other sanctions, such as a reprimand or specific conditions on future contracting. The IDB Group publicly lists sanctioned firms and individuals on the IDB's website.[10]

When an investigation indicates that the facts reviewed may constitute a violation of national law, the IDB President may direct that the investigative results be referred to the relevant national authorities for such action as they deem appropriate.

SANCTIONS IMPOSED IN 2009

As shown below, the Sanctions Committee imposed sanctions on 52 firms and individuals in 2009. At the end of the year, 25 cases were pending before the Sanctions Committee. It is important to note that in certain cases the sanctions may apply to more than one firm or individual.

TABLE 3.
SANCTIONS IMPOSED IN 2009

Type of Sanction	Length of Sanction	Individuals	Firms
Letter of Reprimand		1	1
Debarment	Permanent	7	3
	5 years	14	9
	4 years	1	0
	3 years	9	2
	2 years	3	1
	1 year	1	0
	Total	36	16

CASES AND OUTCOMES

External cases comprised 84% of the cases investigated in 2009, with fraud and corruption as the most frequent. Cases may involve more than one violation and often include embezzlement and misappropriation of funds, bribery, misrepresentation of qualifications, inflated bid prices, substitution of goods and services, conflict of interest, and manipulation of the bidding process. Examples of investigations that OII completed in 2009 are provided below.

FRAUD AND EXTORTION

1. Construction Firm Submitted False Invoices and Forged Certificate

A construction firm used supplies for an IDB Group-financed project that did not meet the specifications included in the firm's bid. The investigation found that the firm submitted a fraudulent purchase invoice, forged a certificate, and provided catalogues for supplies that did not match those described in the bid.

Outcome: A Notice of Administrative Action was referred to the Sanctions Committee. The amount paid to the construction firm for the supplies was US$325,000.

2. Names of Real Firms Used to Submit False Bids

A project commenced before the executing agency completed the bid evaluation. The firms conducting the project reported that they began the work because the executing agency told them that they were the winning bidders, and that the first payment had not been made by the executing agency.

The alleged unsuccessful bidders stated that they never participated in this bidding process, and that the firms and corporate seals appearing in the bids were not theirs. The bids submitted to the IDB on behalf of these firms had been falsified.

Outcome: The IDB is referring the case to national authorities. The amount of the contract was US$250,000.

BRIBERY

3. Bribery and Manipulation of the Bid Process

Two consultants working for an executing agency directing an IDB-financed program agreed to be contracted by a firm that ultimately won a contract in the IDB program. The consultants provided services paid for by the winning firm before, during, and after the firm received the contract in the IDB program.

OII's investigation revealed that the two consultants had close relationships and contacts with the winning firm, and that their positions in the program gave them access to confidential information on the results of evaluations.

Outcome: A Notice of Administrative Action was referred to the Sanctions Committee. The contract amount was US$150,000.

4. A Consultant Solicited Gifts from Beneficiaries of a Program Targeting Rural Areas

A consultant was contracted to provide technical assistance to an IDB-financed program, and abused his position by soliciting gifts and misleading rural beneficiaries.

OII's investigation revealed that the executing agency's oversight mechanisms identified this abusive practice, and instituted legal action against the consultant.

Outcome: A Notice of Administrative Action was referred to the Sanctions Committee. The contract amount was US$10,000.

COLLUSION

5. Bidders Fixed Bids in order not to Compete

In a bidding process for the procurement of goods, the bidders fixed the prices of 137 items in order not to compete with each other. The unsuccessful bidders submitted bids exactly 1%, 5% and 20% above those of the successful bidder. The same bidders failed to provide necessary documentation, and, therefore, were disqualified from the process. None of the unsuccessful bidders filed a protest or sought to modify their bid.

OII discovered that several of the bidders had family ties to the owners of the firm that won the bidding process.

Outcome: The bidding process was invalidated. A Notice of Administrative Action was referred to the Sanctions Committee. The contract amount was US$71,000.

MISLEADING CERTIFICATES

6. Winning Bidder was on List of Sanctioned Firms and Submitted False Documentation

A Country Office forwarded to OII an allegation regarding a winning bidder that was on a government list of sanctioned firms.

The investigation found that the winning bidder submitted a forged certificate to the executing agency. The firm also provided a list of public and private contracts, which it misrepresented as having completed in the last five years.

Outcome: A Notice of Administrative Action was referred to the Sanctions Committee. The contract amount was US$29,800.

7. Forged Documents for Goods Leased for the Tendered Project

A firm submitted a bid containing a forged lease certificate for goods to be used in the tendered project, to the executing agency. In forging the certificate, the firm made arbitrary use of the name of another firm and its legal representative.

OII's investigation revealed that the firm allegedly issuing the certificate was unaware of the events, the bidder, or its legal representatives. The winning bid-review mechanisms that the executing agency made available to the losing bidders enabled them to discover the false information supplied by the winning firm. Upon completion of the investigation, the executing agency revoked the award.

Outcome: A Notice of Administrative Action was referred to the Sanctions Committee. The contract amount was US$1,647,800.

III. PREVENTION

Due to the growing demand for OII's prevention strategies and the wider dissemination of information, OII's major achievements for the year included the development of the new Integrity Risks Reviews (IRR).

INTEGRITY RISKS REVIEWS (IRR)

IRRs provide information on the most common fraudulent practices, their possible causes, and strategies to reduce the likelihood of their occurrence in IDB-financed activities. OII typically performs IRRs upon the request of national authorities, IDB country departments, and IDB sectors.
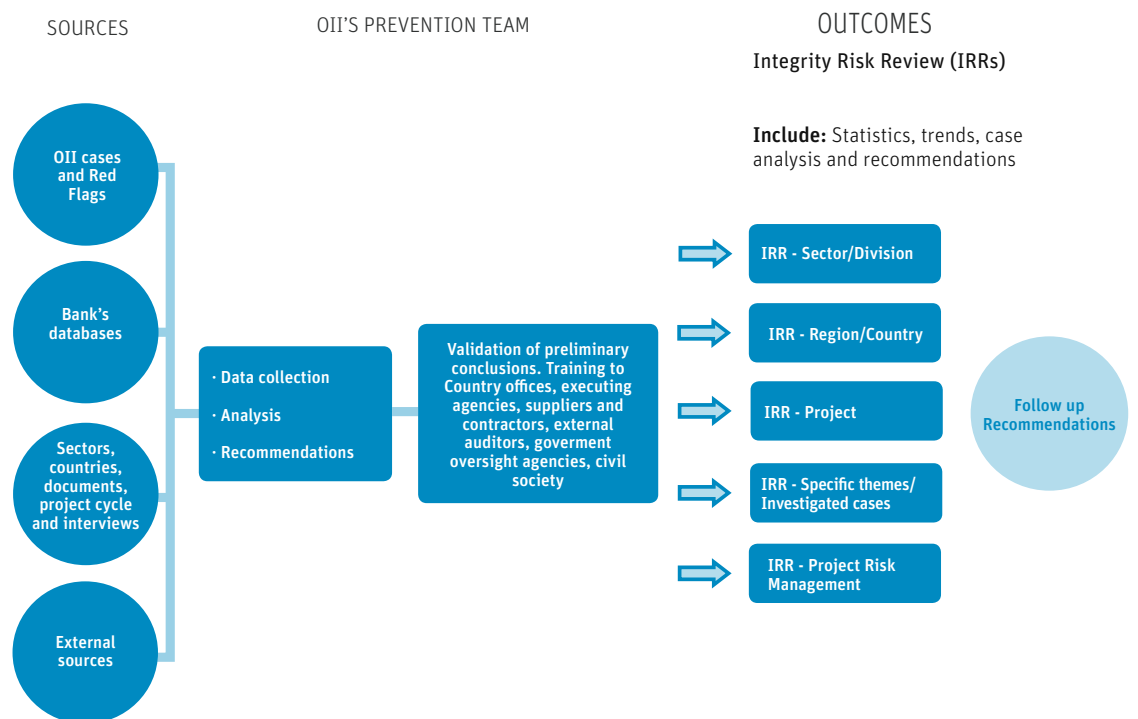
The IRR process begins with the analysis of information gathered from OII investigations, which is combined with information from other internal and external sources. The internal sources include IDB project cycle documents (including monitoring, audit, and evaluation reports), knowledge from other IDB units with fiduciary responsibilities, and interviews with Country Office staff. External sources include, but are not limited to, reports from government oversight agencies, documents from other multilateral development banks, technical reports, and interviews with key stakeholders.

Once gathered, OII reviews the information and produces the following main outputs:

1. A report that compiles all of the information collected, feedback received, and an action plan containing recommendations as to how to manage the identified risks.

2. Training delivered to Country Offices, executing agencies, government oversight agencies, project external auditors, and actors from the private sector and civil society, to impart the knowledge gained in the analysis of the information collected.

3. A plan for monitoring, communicating, and implementing the recommendations contained in the report.

In 2009, OII completed IRRs covering Bolivia and Paraguay. OII also prepared a preliminary report concerning Honduras, and began the IRR process in Nicaragua. As a part of the IRR process, OII completed a training mission to Nicaragua at the end of the year. Additionally, at the request of the Country Department Central America, Mexico, Panama and the Dominican Republic (CID), OII conducted a thematic IRR on collusive schemes. The Knowledge and Learning Sector (KNL) supports the training activities included in the IRR process.

DIAGRAM 1. INTEGRITY RISKS REVIEWS (IRR) PROCESS

SOURCES

OII'S PREVENTION TEAM

OUTCOMES

Integrity Risk Review (IRRs)

Include: Statistics, trends, case analysis and recommendations

OII cases and Red Flags

Bank's databases

· Data collection

· Analysis

· Recommendations

Validation of preliminary conclusions. Training to Country offices, executing agencies, suppliers and contractors, external auditors, goverment oversight agencies, civil society

IRR - Sector/Division

IRR - Region/Country

IRR - Project

Sectors, countries, documents, project cycle and interviews

IRR - Specific themes/ Investigated cases

IRR - Project Risk Management

Follow up Recommendations

External sources

SUPPORT FOR BANK OPERATIONAL UNITS

Country Office in Bolivia (CAN/CBO)

At the Regional Manager's request in 2008, OII initiated an IRR for the Country Department Andean Group (CAN). Based on its initial findings, OII conducted a more specific analysis of Bolivia. This more specific inquiry included an OII training mission.

In early 2009, OII delivered an IRR report to CAN/CBO and CAN, which contained the findings of cases investigated by OII, information from sources inside and outside of the IDB, comments received during OII's mission to Bolivia, and specific recommendations on how to address the issues and weaknesses identified. The recommendations included ways to improve knowledge of common fraudulent practices and manners in which information on the IDB's integrity policies can be made more readily available.

CAN and the CAN/CBO accepted the recommendations and a second mission travelled to Bolivia to assist in the implementation of the recommendations. Specifically, the IRR report and the implementation of the recommendations contained therein resulted in the following activities:

» Nine training events for business associations, civil-society organizations, and executing agencies on integrity policies and, with support from the Office of External Relations (EXR), on the Bank's Disclosure of Information Policy (OP-102).
» A specific training event for executing agencies, contractors, and suppliers to IDB-financed projects in cities and provinces where decentralized projects are executed.
» A training event for project audit firms on ways to detect early signs of fraud and corruption.
» A communication strategy on integrity issues for Bolivia.

OII and EXR trained approximately 300 people during the mission, including executing agency staff, business association representatives, external auditors of IDB Group projects, and members of civil society organizations.

OII also trained Country Office fiduciary specialists, so that they are equipped to present on integrity issues to various audiences in the future, such as at fiduciary training events and project launch workshops.

As part of its communication strategy, OII designed and distributed handbooks and posters detailing the IDB Group's integrity policies and how to consult with OII and report allegations of fraud and corruption.

Country Office in Paraguay (CSC/CPR)

At the request of the Government of Paraguay, the Country Department Southern Cone (CSC), and CSC/CPR, OII prepared an IRR for Paraguay.

After gathering preliminary information, a first mission travelled to Asuncion. This mission included training sessions with IDB staff, executing agencies, civil society and private sector organizations, government oversight agencies, and project external auditors, as well as meetings and interviews with key stakeholders. OII used the information obtained during the mission to validate the outcomes of the case studies and the information gathered from external and internal sources, and, ultimately, to produce an IRR report with specific recommendations on how to address the issues and weaknesses identified. Some of the recommendations included in the IRR report that OII shared with CSC/CPR were:

» Provide training to government oversight agencies.
» Disseminate basic information on integrity to executing agency staff.
» Train external auditors for Bank projects.

In conjunction with CSC/CPR staff, OII drafted a plan to follow the recommendations of the IRR report. This plan was implemented during a second OII mission to Asuncion, during which more than 200 people were trained, including executing-agency staff, auditors, oversight agency representatives, and private businesspeople. As in Bolivia, OII distributed communication materials and trained IDB staff to give presentations and case exercises on integrity, fraud, and corruption issues.

Country Office in Honduras (CID/CHO)

At the request of CID/CHO, OII produced a preliminary IRR report and delivered it to the Country Office in early 2009. Based on the risks identified, OII made the following recommendations:

» Randomly spot check documents submitted in procurement processes.
» Conduct proactive reviews of operations.
» Strengthen executing agency capability to detect early signs of fraud and corruption.

Country Office in Nicaragua (CID/CNI)

In mid-2009, CID/CNI forwarded to OII the requests of the Governor for Nicaragua, the Ministry of Finance and Public Credit, and the Comptroller General of the Republic to conduct an IRR for the country. After a preliminary analysis of cases and external sources, a mission went to Managua.

OII distributed communication materials and held training events on the IDB's anticorruption framework and the early detection of fraud and corruption. More than 200 people from executing agencies, government oversight agencies, civil society organizations, and business associations attended the training event.

The IRR report is forthcoming, and will include comments received during the mission and recommendations to mitigate the risks identified.

Country Department Central America, Mexico, Panama and the Dominican Republic (CID)

In response to a request from CID in late 2009, OII conducted a risk analysis on collusive practices. OII based its analysis principally on the findings of collusion cases cases it investigated, supplemented by scholarly information on the subject. The study identified a number of early warnings and conditions conducive to this type of scheme, such as:

» Rotation of winning bidders.
» Submission of complementary bids.
» Subcontracting of competitors.

These findings facilitate the prevention and detection of collusion by IDB Group specialists, and so optimize competition in IDB-financed projects. OII delivered the final report to the Regional Manager's office in 2009.

RED FLAGS MATRIX

The Red Flags Matrix is an interactive checklist for detecting and managing risks of fraud and corruption in the project procurement process. The matrix, as well as training for its use and associated operational activities, was developed and will be administered by OII and the Project Procurement Division (VPC/PDP).

In 2009, the two offices organized a training event for sector and fiduciary specialists at the IDB's Country Offices in Argentina, Paraguay, and Uruguay, and participated in a training seminar in Belize. With support from the Office of Strategic Planning and Development Effectiveness (SPD), OII and VPC/PDP surveyed IDB Group fiduciary specialists on the possible implementation of the Red Flags Matrix. Seventy-nine percent of those surveyed responded that they would use the tool, and more than half of the 83 respondents reported that instructor-led training would be helpful. The survey results demonstrate the need for prompt implementation of the Red Flags Matrix in the IDB Group project procurement process.

OTHER ACTIVITIES

Seminar at the Country Office in Belize (CID/CBL)

The Government of Belize, in conjunction with CID/CBL, VPC/PDP and OII, organized a three-day seminar for the public and private sector in Belize on "Fiduciary Policies and Integrity Risks in IDB-financed Projects." The main objective of the seminar was to provide training on the various strategies for the prevention of fraud and corruption in IDB-financed activities and to facilitate supervision of each project.

All activities with the Country Offices and sectors have a learning purpose agreed upon and supported by KNL. The training activities are aimed at increasing knowledge about the IDB Group's anticorruption framework and OII's functions and activities. Specifically, it seeks to enhance participant knowledge of integrity risks and the potential strategies for their identification and prevention.

Transparency and Anticorruption Program in Bolivia–Institutional Capacity of State Division (ICF/ICS)

ICF/ICS identified a project to support Bolivia's Ministry of Transparency and Anticorruption. In mid-2009, OII participated in the project's analysis mission and provided technical support to the project team.

The project supports measures to reduce impunity, enhance societal oversight, and foster a culture of integrity. The project aims to aid government agencies and prevention and justice institutions to:

» Detect and investigate acts of corruption and impose justice for their occurrence.
» Enhance transparency in the use of public resources.
» Promote government accountability and civil society oversight.
» Raise public awareness of the adverse impacts of corruption.

OII supported ICF/ICS in the execution of technical cooperation operations related to anticorruption activities (RG-T1307 and RG-T1311).

Anticorruption Activities Trust Fund (AAF)[11]

Since 2007, OII has participated, along with ICF/ICS and the Grants and Cofinancing Management Unit (VPC/GCM), in the Technical Review Committee, the body responsible for selecting proposals submitted for consideration by the AAF. Technical responsibility over the AAF resides within ICF/ICS.

11 http://condc05.iadb.org/iadbtrustfunds/Funds

The primary objective of the AAF is to strengthen the institutional capacity of the IDB's borrowing member countries to prevent and control corruption by supporting the design and implementation of policies, mechanisms, and/or practices that promote access to information.

In 2009, the Technical Review Committee evaluated seven proposals and recommended approval of the following:

» Strengthening of Belize's Fiscal Transparency and Responsibility (BL-T1034), Ministry of Finance, Belize.
» Support for Observatório da Despesa Pública para Combater a Corrupção [Public Expenditure Watch Against Corruption] (BR-T1146), Office of the Comptroller General (CGU), Brazil.
» Strengthening of Transparency and Information Disclosure Mechanisms and Protection of Financial Services Users in the Region (RG-T1790), IDB, FELABAN and SEGIB.
» Transparency and Accountability in Local Government Budget Preparation and Monitoring in Guyana, University of Guyana in collaboration with the Ministry of Local Government.

Additional Knowledge Activities

With KNL support, OII began to develop specific knowledge projects based on investigation outcomes and other sources.

Preparation of Case Studies with the Office of the Executive Auditor (AUG)

To disseminate knowledge and lessons learned from allegations and OII investigations, OII and AUG collaborated to develop a specific case study on fraud and corruption in a project. The case study employed OII learning tools to teach about at-risk situations during the procurement process in different sectors and countries.

Development of an Interactive Tool with KNL

In 2009, OII, in conjunction with KNL, began to design two knowledge tools, one instructor-led and the other interactive, for the Training Program on Integrity Risks and the Red Flags Matrix. The objective of these tools is to educate IDB Group staff as well as the IDB's counterparts in the region, about integrity risks in IDB-Group financed projects and reduce the likelihood of fraudulent and corrupt practices.

OII plans to launch these tools in 2010. These interactive tools will be developed in both Spanish and English, so as to train a broad range of staff. The training will also include an evaluation test, to measure the knowledge gained by the participants. In the design of these tools, OII provided the content and cases and KNL designed the methodology.

INTERNATIONAL COLLABORATION

Throughout 2009, OII continued working with integrity offices at other multilateral development banks and associations to harmonize and improve integrity programs through the sharing of best practices.

As in previous years, OII attended the International Investigators Conference hosted by the European Anti-Fraud Office (OLAF). This year, OII delivered a presentation on the most common types of fraud identified in its investigations. These strategic meetings improve the sharing of information among international agencies on best practices in integrity.

IV. INTEGRITY IN PRIVATE SECTOR AND NON-SOVEREIGN GUARANTEED OPERATIONS

The IDB Group has several units that provide private sector or non-sovereign guaranteed financing, including the Structured and Corporate Financing Department (SCF), the Opportunities for the Majority Sector (OMJ), the Multilateral Investment Fund (MIF), and the Inter-American Investment Corporation (IIC).

The integrity framework for IDB Group projects with the private sector (CC-6093) underwent an external review in late 2008. Among other suggestions, the review calls upon investment officers to conduct a "due diligence" review at the outset of each potential transaction to detect and mitigate integrity and reputation risks, including:

» Identity and personal background of potential customers.
» Information related to politically-exposed persons.
» Anti-money laundering and anti-terrorism financing policies and procedures.
» "Know your customer" information when dealing with a financial institution.

A working group was formed in 2009 to review and update policies and procedures on integrity due diligence in private-sector and non-sovereign guaranteed operations. Coordinated by the Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations (VPP), this working group includes SCF, OMJ, the MIF, the IIC, the Office of Outreach and Partnerships (ORP), the Legal Department (LEG/NSG), and OII.

OII was tasked to develop new guidelines and procedures for integrity and reputation due diligence in these types of transactions. OII worked closely with all of the IDB Group units involved in order to ensure that the guidelines set forth effective rules to identify and mitigate these risks. OII also worked to develop procedures tailored to the financial products and types of clients specific to each window operating in the private sector and in non-sovereign guaranteed operations. The working group's efforts have been instrumental in the development of the new guidelines and procedures for analyzing and handling integrity and reputation-risk indicators in IDB Group activities.

In 2009, a Private Sector Integrity Officer joined OII to train project teams on the prevention of integrity and reputation risks and to support their identification, evaluation, and mitigation.

As part of the support rendered to the IDB Group's project teams, OII initiated a process for formal consultation directly with the Private Sector Integrity Officer. This process makes it easier for project teams to confer about integrity or reputation risks detected during the due diligence phase.

In 2009, OII received 25 formal consultations from the windows that provide private-sector or non-sovereign guaranteed financing (i.e., SCF, OMJ, the MIF, and the IIC). Below is an example of a formal consultation that OII received from a project team.

SAMPLE CONSULTATION: INTEGRITY RISK INDICATOR IN RELATION TO A NON-SOVEREIGN GUARANTEED OPERATION

A window reported that an official multinational institution document indicated that a potential borrower may have been involved in corrupt practices in a beneficiary country. The project team discovered the document while searching for information as part of its normal due diligence procedure.

In response to the window's formal consultation, OII contacted the multinational institution that produced the document and conducted further analysis of the firm in question. OII then sent a report to the window, summarizing the risks posed for the proposed project and suggesting mitigation measures that could be taken to lower the integrity and reputation risk. The proposed mitigation measures were as follows:

a.- Obtain additional declarations and guarantees from the potential borrower.
b.- Require closer and more frequent monitoring of the project by the window.
c.- Require the potential borrower to commit to external review of its anticorruption compliance program, and to make changes as necessary.

V. COMMUNICATION

In 2009, OII formulated a strategy to coordinate and harmonize communications regarding its investigation and prevention activities. The communication plan is a strategy to raise awareness of the importance of integrity for the IDB Group and its clients in order to achieve the expected development results. EXR, ACP/GSV, and KNL provided support for the plan.

The communication plan calls for improved communications with local entities, oversight organizations, civil society, news media, and business associations and the provision of information on the IDB Group's integrity policies, as well as the ways to submit consultations and allegations. OII designed and distributed specific communications materials, especially as part of the IRR program in Bolivia, Paraguay, and Nicaragua.

THE OII WEBSITE

OII's visibility through the IDB's website plays an important role in its preventive mission. In 2009, with support from EXR, OII restructured its website around the IDB Group's new corporate identity. Under the topic "Transparency," the website offers access to information on integrity at the IDB, reporting fraud and/or corruption, sanctioned firms and individuals, integrity activities, publications, and frequently asked questions. As noted in Chapter II, about 30% of the inquiries submitted to OII in 2009 were received through the website.

## PUBLICATION OF THE LIST OF SANCTIONED FIRMS AND INDIVIDUALS[12]

The List of Sanctioned Firms and Individuals was more widely disseminated in 2009. Personalized notifications of updates were sent, and an e-alert was created for those wishing to receive automatic e-mail notifications of each update. To subscribe, visit: http://www.iadb.org/ealerts.

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12 http://www.iadb.org/integrity/ sanctions

INTERNATIONAL ANTICORRUPTION DAY

In 2003, the General Assembly of the United Nations declared December 9 to be International Anti-corruption Day (Resolution 58/4).

To celebrate the occasion, President Luis Alberto Moreno, Chairperson of the Audit Committee Yasusuke Tsukagoshi, members of the Board of Executive Directors, and other IDB Group staff attended an internal presentation on the IDB's initiatives under Pillars II and III of the "Systemic Framework against Corruption." This framework seeks to ensure integrity in IDB-financed activities and to support borrowing member countries in the areas of governance and corruption prevention and control. LEG, ICF/ICS, and OII delivered presentations and the Executive Vice President provided additional remarks.

International Anti-Corruption Day

IDB · IIC
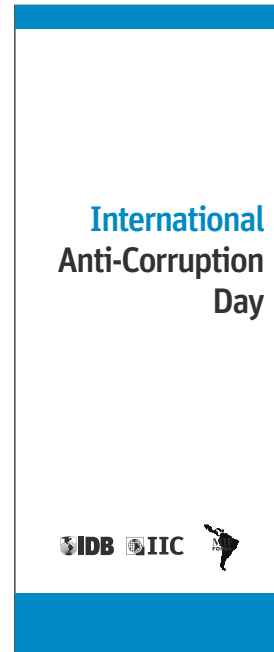
VI. OUTLOOK FOR 2010

In its six years of operation, OII has made significant advances and changes that foster integrity in the activities financed by the IDB Group.

In 2010, a number of recommendations contained in the external review of the IDB Group's Anticorruption Framework will be implemented. These efforts are coordinated by the Office of the Presidency (PRE/PCY) and implementation materials are prepared by Management. Several of these are presented below:

» SANCTIONS PROCESS. The IDB will hire a Case Officer to review the outcomes of OII's investigations, with the authority to sanction those involved in prohibited practices.

» SANCTIONS COMMITTEE. The recommendations of the Case Officer may be appealed to the new Sanctions Committee, which for the first time will include four external members, as well as three IDB Group staff. The seven committee members will be appointed by the President of IDB. Individual cases will be judged by three-member panels appointed by the Chairman of the Sanctions Committee. The committee will also have jurisdiction over the IIC, which is the IDB Group institution that supports small and medium-sized enterprises. The Sanctions Committee will assume the jurisdiction previously held by the OCFC. The OCFC will expand into the Anticorruption Policy Committee, whose focus will be one of policy development and oversight of IDB anticorruption initiatives.

» PROTECTION TO WHISTLEBLOWERS. The definition of reprisal will be expanded to include protections for third parties. The Bank may notify national authorities when it receives allegations of reprisal by or against third parties involving IDB Group-financed activities.

Corruption weakens our ventures and integrity efforts are essential for the performance and reputation of IDB Group financed activities.

OII will also explore mechanisms to coordinate information on sanctions with other multilateral development institutions to minimize integrity and reputation risks in their operations, as well as investigate the possibility of establishing a "triage" mechanism for case selection.

Furthermore, in the area of prevention, OII will continue its efforts to detect and reduce integrity risks in IDB Group activities by sector and country, in conjunction with the Ethics Office, VPC/PDP, AUG, and ICF/ICS, via the IRR program and the Red Flags Matrix.

With respect to private sector and non-sovereign guaranteed operations, OII will implement the revised guidelines on integrity due diligence and offer specific training to investment officers on topics related to the identification and mitigation of integrity and reputation risks.

These changes and developments will strengthen the investigation and sanctions processes, and provide more support to the member countries in fighting fraud and corruption in IDB Group-financed activities.

VII. HOW TO CONSULT WITH OII OR REPORT A CASE

Allegations of fraud or corruption can be reported confidentially and securely: Mail addressed to the Office of Institutional Integrity (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, the MIF, the IDB Group Country Offices in each of its borrowing member countries, or to the IDB Representatives in Europe and Asia. Allegations of staff misconduct should be reported to the Ethics Officer.

WHAT HAPPENS NEXT

All allegations are reviewed by OII and reported to the Oversight Committee on Fraud and Corruption (OCFC). OII does not reveal the source of the allegations to anyone outside of the investigative team.

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 IDB Group?
» If the allegation were true, would it constitute a violation of the IDB 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 whether further action, if any, is warranted.

Consultations e-mail:	OII-consult@iadb.org
Allegations e-mail:	Allegations@idbfc.org
Phone:	See table below
Fax:	1-202-312-4029
Postal mail or in person:	Office of Institutional Integrity Inter-American Development Bank 1300 New York Avenue, N.W. B680 Washington, D.C. 20577 USA

Step 1. Dial the access code provided below for the country from which you are calling.
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
Argentina	0-800-555-4288	Haiti	183
Bahamas	1-800-872-2881	Honduras	800-0-123
Barbados	1-800-872-2881	Jamaica	1-800-872-2881
Belize	811	México	01-800-288-2872
Bolivia	800-101-110	Nicaragua	1-800-0174
Brazil	0800-890-0288	Panama	800-0109
Chile	800-255-288	Paraguay	008-11-800
Colombia	01-800-911-0011	Peru	0-800-50-000
Costa Rica	0-800-0-114-114	Suriname	156
Dominican Republic	1122	Trinidad & Tobago	1-800-872-2881
El Salvador	800-1785	United States	1-800-255-5288
Ecuador	1-999-119	Uruguay	000-410
Guatemala	99-99-190	Venezuela	0800-2255-288
Guyana	159		

To view the full list of countries, visit OII's website at: www.iadb.org/integrity.

GLOSSARY

COMPLETED CASE: An investigation that has concluded, with reports and recommendations forwarded to the committee tasked with deciding upon the case.

EXTERNAL CASE: External cases relate to allegations of fraud or corruption in IDB-Group financed activities or projects, but do not involve IDB-Group staff.

INTERNAL CASE: Internal cases involve IDB Group staff for allegations of fraud and corruption or violations of the Code of Ethics and Professional Conduct.

PRIVATE SECTOR CONSULTATION: A request to OII to assess the integrity and reputation risks in a private sector or non-sovereign guaranteed project.

CONSULTATION: Any request for information pertaining to integrity issues.

SUBSTANTIATED: A case in which the evidence is sufficient to support a finding that the alleged prohibited practice, as defined by the IDB Group, has occurred.

ALLEGATION: Any claim received on acts of fraud, corruption, or misconduct. OII investigates allegations that relate to IDB Group financed activities, violate the definitions of fraud and corruption adopted by the institution, and are credible.

UNFOUNDED: A case in which the allegation that an act of fraud or corruption, as defined by the IDB Group, has occurred is determined to be untrue.

UNSUBSTANTIATED: A case in which the evidence is insufficient either to confirm or deny the allegation that an act of fraud or corruption, as defined by the IDB Group, has occurred.

INQUIRY: Communication received by OII, which upon analysis may give rise to a consultation regarding OII's functions or an allegation.