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2011 Office of Institutional Integrity Annual Report

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**Inter-American
Development Bank**

**Office of Institutional
Integrity**

ANNUAL REPORT 2011



I. INTRODUCTION

WHY INTEGRITY MATTERS

The Inter-American Development Bank has been transformed by an unprecedented period of reform and renovation, realigning its priorities and structure and renewing its ability to serve as an indispensable catalyst for development in Latin America and the Caribbean.

This agenda of profound change is reshaping the Bank and has allowed the IDB Group to re-engage with its borrowers at a time when they most need the institution. The IDB has made major advances in its effectiveness, transparency and accountability.

Integrity is fundamental to the IDB Group's central mission to promote development throughout Latin America and the Caribbean. Corruption undermines that mission. The Office of Institutional Integrity is a cornerstone in the IDB Group's efforts to detect and prevent corruption.

OFFICE OF INSTITUTIONAL INTEGRITY

The Office of Institutional Integrity plays a key role in leading the IDB Group's integrity efforts. The Office investigates information in connection with Prohibited Practices in IDB Group-financed activities, conducts activities designed to detect and prevent Prohibited Practices, and engages in outreach by developing training programs on integrity-related issues and providing support to the operational divisions within the IDB Group.

The IDB Group's integrity framework is based on three pillars: (i) promoting the highest levels of integrity; (ii) ensuring that activities financed by the IDB Group are free of fraud and corruption; and (iii) supporting programs that strengthen good governance, enforce the rule of law, and combat corruption.

The Office of Institutional Integrity is a resource to the IDB Group and a partner in fulfilling its development mission. In the context of increased lending by the IDB Group, the relevance and importance of the Office's work remains paramount. The Office is an integral part in the fight against fraud and corruption on behalf of the IDB Group, for, in the absence of integrity, development efforts are hindered.

II. 2011 HIGHLIGHTS

INVESTIGATION ➔ **Review** of 130 allegations and 288 consultations.

➔ **Completion** of 150 cases.

PREVENTION ➔ **Partnership** with six Country Offices to conduct Integrity Risk Reviews.

➔ **Implementation** of the Red Flags Matrix system for use in all Country Offices that have projects uploaded in the Procurement Plans Execution System.

OUTREACH ➔ **Organization** of the *Second Annual Conference of International Financial Institutions on Efforts to Prevent Corruption and Other Prohibited Practices*.

➔ **Training** on integrity issues to Country Offices and governmental oversight agencies, as well as participation in discussions about anti-corruption alongside national law enforcement, international financial institutions, and control agencies in Latin America and globally.

II. INTERPRETING OUR DATA: RESULTS

Cases and Consultations

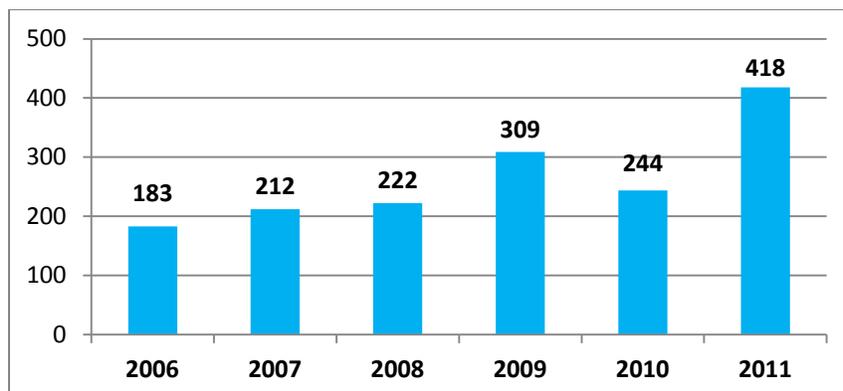
The Office of Institutional Integrity started the year with 65 active cases. In the course of 2011, the Office opened 130 new cases for a total of 195 active cases. As of December 31, 2011, the Office completed 150 cases. The average time of completion for those 150 cases is 185 days. During the year, the Office cleared a substantial backlog of cases dating from previous years; as a result, at year-end there were no cases pending that had been opened prior to 2011. The oldest case under investigation is from July 2011. The Office completed an unprecedented 77% of the total active cases.

Table 1: Case Load Summary, 2006 – December 31, 2011

CASES AND CONSULTATIONS						
	2006	2007	2008	2009	2010	2011
Pending Cases (prior year)	111	123	97	69	80	65
New Consultations	34	76	100	146	105	288
New Allegations	149	136	122	163	139	130
New Consultations and new Allegations	183	212	222	309	244	418
Active Cases	260	259	219	232	219	195
Completed Cases	137	162	150	152	154	150
Pending Cases (period's end)	123	97	69	80	65	45

In addition, in 2011, the Office of Institutional Integrity processed a total of 288 new consultations. A consultation is an inquiry pertaining to integrity or reputational issues. These consultations involved inquiries from Non-Sovereign Guaranteed Operations, other Bank staff and the general public on measures to prevent or mitigate risks of fraud or corruption, as well as requests for assistance with the interpretation of the IDB Group's anti-corruption policies and guidelines. In sum, the number of cases and consultations during 2011 was 483, of which 418 were new.

FIGURE 1: TOTAL NEW ALLEGATIONS AND CONSULTATIONS RECEIVED 2006-2011

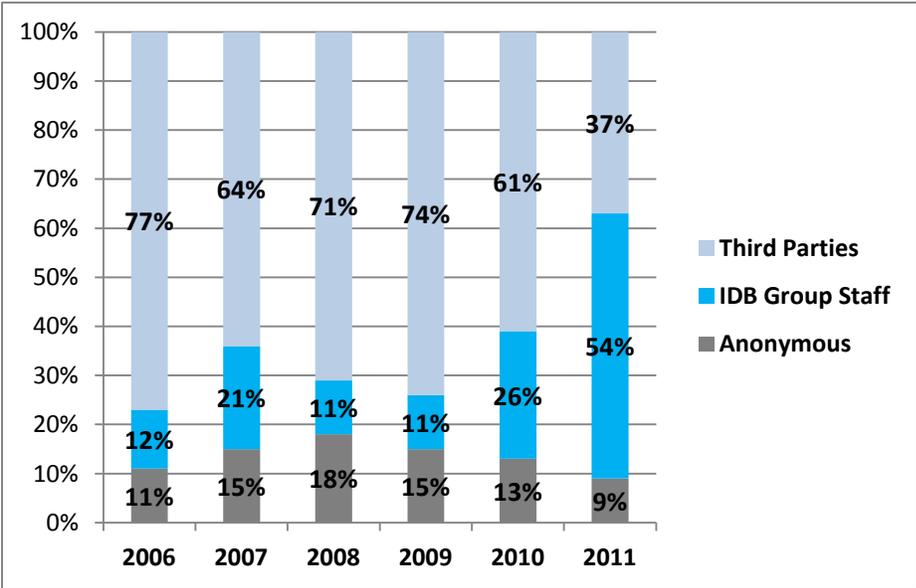


More and more, the Office of Institutional Integrity is recognized within the IDB Group as a resource in preventing fraud and corruption in IDB Group-financed activities.

Sources of Information and Contact Methods

The Office of Institutional Integrity obtains information about possible misconduct mainly from three sources. Of the cases opened in 2011, 54% of the information originated from IDB Group staff, 37% originated from third parties, and 9% originated from anonymous sources. Third party sources include contractors, government officials, employees of NGOs, and the media.

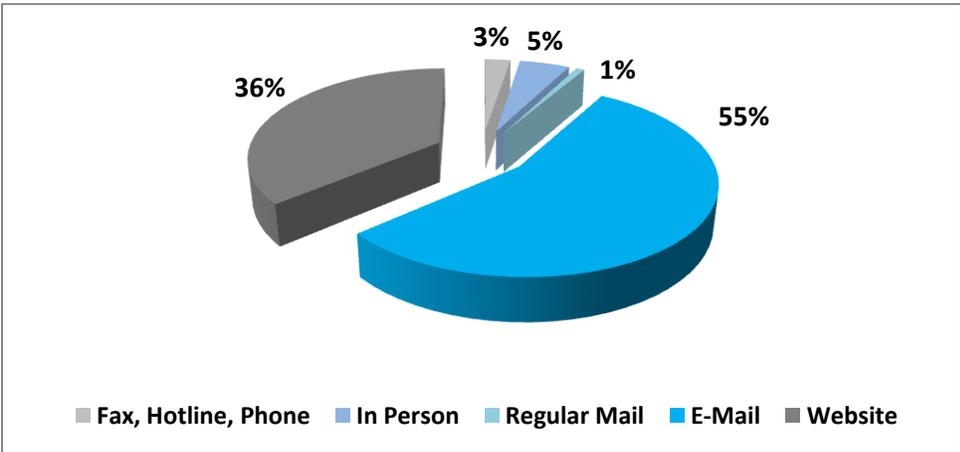
FIGURE 2: SOURCE OF INFORMATION IN PERCENTAGE 2006-2011



Contact Methods

The Office of Institutional Integrity offers several means to submit inquiries or allegations of Prohibited Practices. This includes e-mail, the website, postal mail, telephone, fax, hotline, and in person. Figure 3 provides a breakdown of the reporting mechanisms that were utilized to submit allegations of Prohibited Practices in 2011.

FIGURE 3: HOW ALLEGATIONS WERE SUBMITTED 2011



Investigative Process – Threshold Analysis

The Office of Institutional Integrity first reviews all new allegations and related information to determine whether:

- 1) The information concerns an activity financed by the IDB Group.
- 2) The information concerns the IDB Group's Prohibited Practices.¹ (See Box 1)
- 3) The information is sufficiently credible.

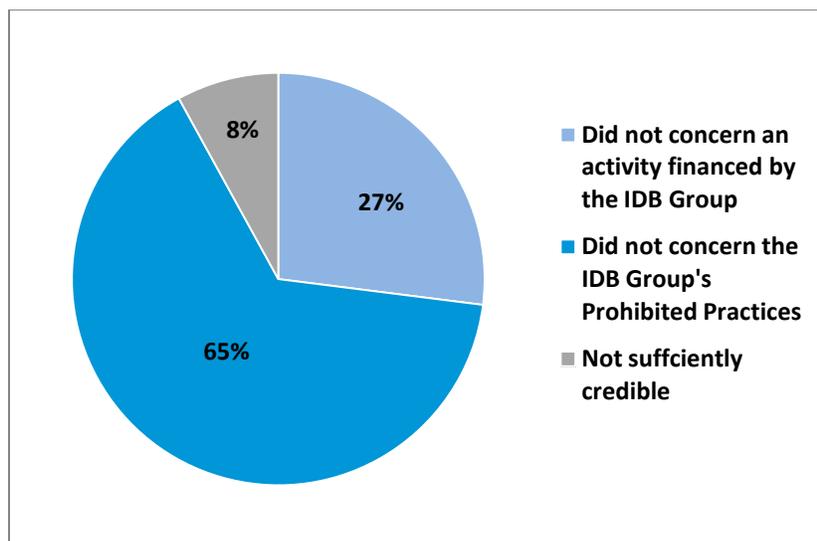
Twenty percent of all cases opened during 2011 were closed at this initial stage.

Box 1

The IDB Group's Prohibited Practices

- (1) A **corrupt practice** is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) An **obstructive practice** is (a) deliberately destroying, falsifying, altering or concealing evidence material to the investigation or making false statements to investigators in order to materially impede a Bank Group investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or (b) intentionally acting to materially impede the exercise of the Bank Group's contractual rights of audit or access to information.

¹ Inter-American Development Bank, *Sanctions Procedures of the Inter-American Development Bank*, §2.2 (April 2011).

FIGURE 4: CLOSED CASES AFTER THRESHOLD ANALYSIS 2011

Of the cases that did not meet the threshold analysis, 27% did not involve an activity financed by the IDB Group, 65% did not concern the commission of a Prohibited Practice, and 8% did not involve sufficiently credible information.

Table 2: Referrals 2011

REFERRALS OF ALLEGATIONS THAT DID NOT MEET THRESHOLD ANALYSIS	
Ethics Office	9
Human Resources Department	1
Legal Department	2
Independent Consultation and Investigation Mechanism	1
Infrastructure and Environment Sector	1
International Financial Institutions	2
Total:	16

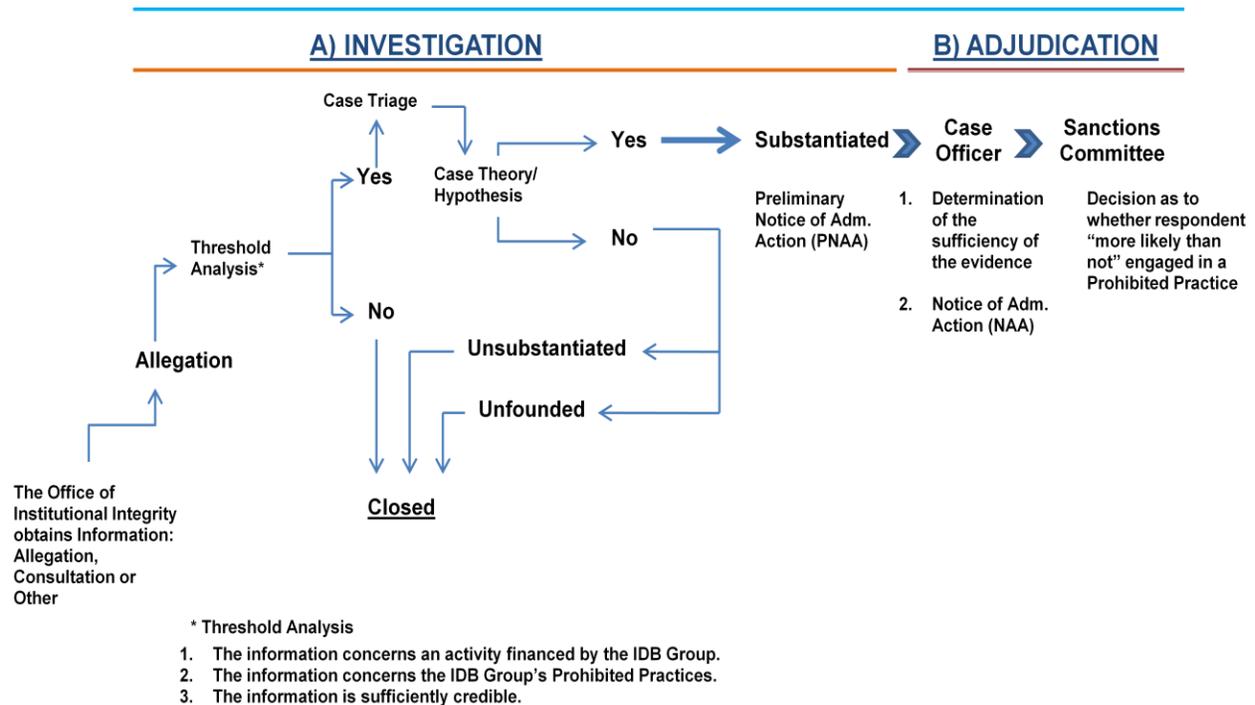
Fifteen² new allegations that did not meet the threshold analysis were referred to other units of the IDB Group or to other organizations, where appropriate. Nine cases were referred to the Ethics Office, one of which was also referred to the Human Resources Department, two cases were referred to the Legal Department, one case to the Infrastructure and Environment Sector, one case to the Independent Consultation and Investigation Mechanism, and two cases in which there was no IDB Group involvement were referred to other International Financial Institutions.

Investigative Process – Case Theory

After conducting the threshold analysis, the Office of Institutional Integrity develops hypotheses of the cases – case theories. In 2011, the Office developed case theories for 104 new cases.

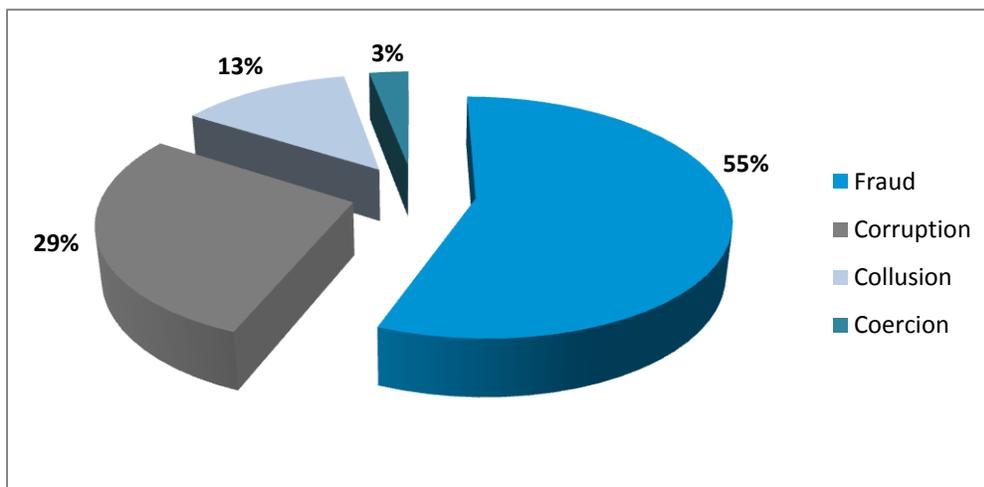
² Although there was a total of sixteen referrals, one new allegation that did not meet the threshold analysis was referred to two different units.

DIAGRAM 1: ANATOMY OF A CASE



A closer look at the distribution of new cases reveals that fraud and corruption are the most common Prohibited Practices investigated, at 55% and 29%, respectively. Collusion accounted for 13% and coercion accounted for 3%. It is important to note that the Office bases its initial classification on the information contained in the allegation. Over the course of an investigation, and as more information about the case is gathered, the Office may modify its initial classification. Additional violations of Prohibited Practices may be uncovered during an investigation. Figure 5 shows the types of allegations investigated in 2011.

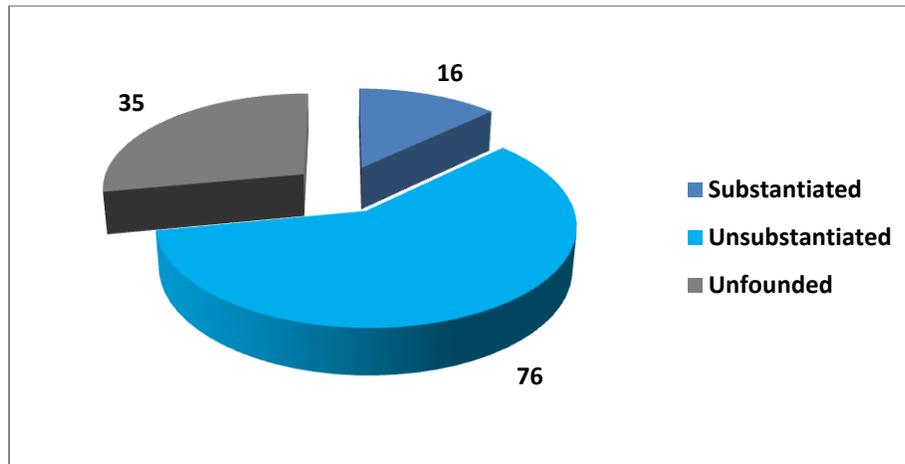
FIGURE 5: TYPES OF ALLEGATIONS INVESTIGATED IN 2011



Completed Investigations and Outcomes

Of the investigations the Office of Institutional Integrity completed in 2011, 16 cases were substantiated,³ 76 were unsubstantiated and 35 were unfounded.⁴

FIGURE 6: INVESTIGATION OUTCOMES IN 2011



Box 2 Case Outcomes

- (1) A case is *substantiated* when the evidence sufficiently supports the allegation of a Prohibited Practice, as defined by the IDB Group.
- (2) A case is *unsubstantiated* when the evidence is insufficient either to confirm or deny the original allegation.
- (3) A case is *unfounded* when the allegation is determined to be untrue.

Of the completed investigations, 53% involved acts of fraud, 32% related to corruption, 12% to collusion and 3% to coercion. There were no investigations of obstructive practices during 2011.

³ Six of the substantiated cases had been previously approved by the outgoing Oversight Committee on Fraud and Corruption (OCFC) and were resubmitted to the Case Officer.

⁴ In addition, three cases were closed prior to the substantiation phase.

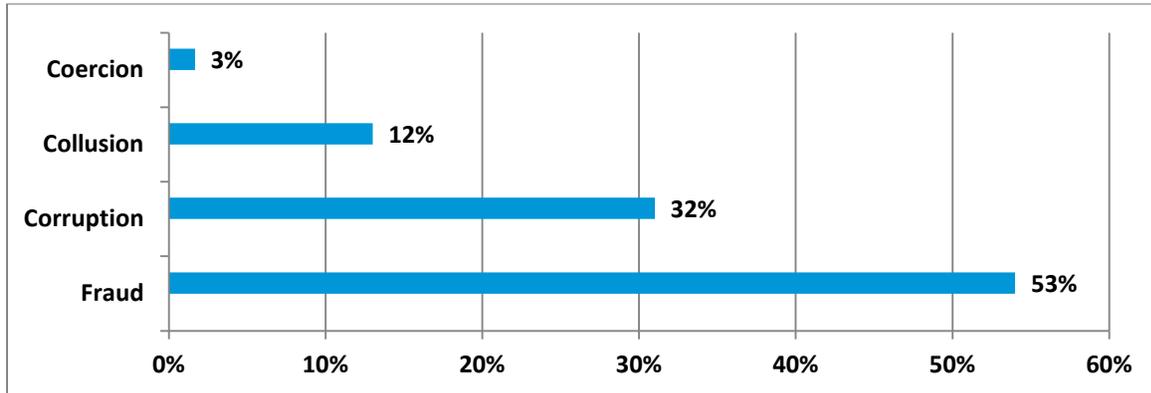
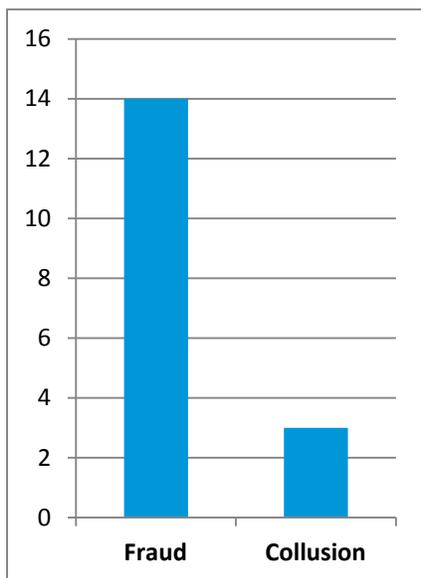
FIGURE 7: TYPE OF CASES COMPLETED IN 2011**FIGURE 8: TYPE OF SUBSTANTIATED CASES IN 2011**

Figure 8 shows the number of cases that the Office of Institutional Integrity found to be substantiated by Prohibited Practice.

The Office of Institutional Integrity investigations into allegations of Prohibited Practices that are not substantiated under the prevailing regulations may be documented in a Report of Investigation if the findings reveal important integrity risks or wrongdoing that should be shared with other units of the IDB Group and/or with national authorities. The Report of Investigation summarizes the findings of the investigation and typically contains recommendations on ways to mitigate integrity risks.

New Sanctions Procedures

The IDB Group implemented new Sanctions Procedures with an effective date of April 1, 2011. Under the new procedures, if the Office of Institutional Integrity determines that a preponderance of the evidence supports a finding of a Prohibited Practice, the Office submits a Preliminary Notice of Administrative Action to a Case Officer. Under the new Sanctions Procedures, the Bank appointed a Case Officer to consider whether, assuming the credibility and admissibility of the evidence presented, there is a preponderance of the evidence that a Prohibited Practice has occurred. A “preponderance of the evidence” means that it is more likely than not that a Respondent has engaged in a Prohibited Practice. If so, the Case Officer sends the Notice and a recommended sanction to the Respondent.

Between April 1, when the new Sanctions system became effective, and December 31, 2011, the Office of Institutional Integrity submitted 16 cases to the Case Officer. The Case Officer reviewed 13 of the 16 cases (3 remain pending). The average time for review by the Case Officer was 70 days per case. Of the 13 cases, the Case Officer issued Notices of Administrative Action and Recommended Sanctions in 9 cases.

As part of the new Sanctions system, a new Sanctions Committee was constituted as of April 1, 2011. Table 3 illustrates the sanctions issued by the prior Sanctions Committee in 2011. The new Sanctions Committee did not adjudicate any cases in 2011.

Table 3: Sanctions issued by prior Sanctions Committee in 2011

Type of Sanction	Length of Sanction	Individuals	Firms
Private Letter of Reprimand		5	1
Debarment	Permanent	1	0
	10 years	1	0
	5 years	4	3
	3 years	13	7
	2 years	3	0
Total		27	11

Table 4: Sanctions issued by new Sanctions Committee in 2011

Type of Sanction		Case Officer Recommendations		Sanctions Committee Sanctions Imposed	
		Individual	Firms	Individuals	Firms
Temporary Suspension		0	0	0	0
Private Letter of Reprimand	Permanent or Time Specific	0	0	0	0
Public Letter of Reprimand	Permanent or Time Specific	0	0	0	0
Debarment	Permanent	0	0	0	0
	13 years	3	3	0	0
	10 years	2	0	0	0
	9 years	2	0	0	0
	7 years	1	1	0	0
	6 years	2	0	0	0
	5 years	2	2	0	0
	4 years	1	0	0	0
	3 years	4	2	0	0
	10 months	1	0	0	0
Total		18	8	0	0

ILLUSTRATIVE CASES

In 2011, the Office of Institutional Integrity worked on 195 cases. These cases varied in complexity and scope.

The following section contains examples of cases completed in 2011. These cases exemplify the Office's investigative process, experience, and commitment to investigating allegations of Prohibited Practices in IDB Group-financed activities.

Fraudulent misrepresentations in submitted work products

The Office of Institutional Integrity obtained information alleging that a firm hired by the Bank committed fraud in the execution of a Bank-financed water and sanitation study. As part of its technical bid, the winning firm had proposed to complete the work by using several key professionals as well as employ a new and innovative methodology. Under the terms of the consultancy contract, the firm was required to deliver several periodic progress reports and a final report upon completion of the project.

The Office's investigation revealed that after being awarded the contract, the firm unilaterally, and without the required Bank authorization, changed key personnel and the methodology. Despite these material changes, the firm continually misrepresented to the Bank that the originally proposed methodology had been employed. The firm misled the Bank by suggesting that the original methodology was implemented by the qualified professionals included in its technical proposal. Review of the firm's work product also revealed that rather than turning in original work in exchange for payments, significant amounts of the firm's reports had been plagiarized from documents and websites published by various internationally recognized NGOs.

False Medical Certificate

The Office of Institutional Integrity obtained information alleging that a university, acting as a consultant entity for the Executing Agency, committed fraud in the execution of a Bank-financed project. The Office found that the university officials submitted a false medical certificate to justify the replacement of an individual consultant. The payment of the university by the Executing Agency was conditioned on the proper justifications by the university of the replacement of individual consultants. The individual consultant, who was replaced by the university, confirmed that he had never met the doctor who prepared the false medical certificate and additionally, that he had never been diagnosed with the disease listed in the false medical certificate. By providing a false medical certificate, the university officials, as well as the university, misrepresented the truth in order to obtain a payment from the Executing Agency.

Misrepresentation in Project Execution

The Office of Institutional Integrity obtained information alleging fraud during the initial phase of the execution of a construction project. The Office found that the supervisors of the project misrepresented, in the certification presented to the Bank for payment, that the works had been performed. The investigation by the Office revealed that the works had not been completed to the extent claimed in the certification. The supervisors misrepresented the extent of the completed works to benefit the construction company.

IV. PREVENTION ACTIVITIES

The Office of Institutional Integrity uses lessons learned from investigations and draws from external sources to promote integrity in IDB Group-financed activities. The Office helps to strengthen IDB Group policies, procedures and mechanisms to mitigate integrity and reputational risks. For example, the Office developed the Integrity Risk Reviews and the Red Flags Matrix, two tools that assist operational and fiduciary units with strategic information to improve operation design and fiduciary activities.

Consultations and Advice

The Office of Institutional Integrity supports the IDB Group's Sovereign Guaranteed, Non-Sovereign Guaranteed (NSG), and Corporate Procurement operations with regard to integrity risk and related consultations, in order to minimize integrity and reputational risks in their operations. Such consultations include a variety of integrity issues, ranging from questions about potential risk indicators in specific projects, to general inquiries regarding the application of IDB Group guidelines.

In 2011, the Office of Institutional Integrity processed a total of 288 consultations, 237 of which related to NSG operations.

Of the 237 NSG-related consultations, the Office participated and provided comments in 146 eligibility and credit approval processes of two NSG Windows⁵ – Structured and Corporate Financing Department (SCF) and Opportunities for the Majority Sector (OMJ). Specifically, the Office participated in the Eligibility Review meetings and the Quality and Risk Review meetings. By participating in these meetings, the Office has the opportunity to identify and help address potential integrity issues in SCF and OMJ projects prior to approval. The other 91 consultations involved requests from all NSG Windows and Corporate Procurement on integrity-related matters.

The remaining 51 consultations involved inquiries from IDB Group staff, clients, and the general public on measures to prevent or mitigate risks of fraud or corruption, as well as requests for assistance with the interpretation of the IDB Group's anti-corruption provisions.

⁵ The NSG Windows are the Inter-American Development Bank's Structured and Corporate Financing Department and Opportunities for the Majority Sector, as well as the Multilateral Investment Fund and the Inter-American Investment Corporation.

Integrity Due Diligence - Private Sector and Non-Sovereign Guaranteed Operations

The Office of Institutional Integrity supports the IDB Group's NSG Windows with regard to integrity due diligence and related matters. Through this support, the Office seeks to minimize integrity and reputational risks in NSG operations. The support provided includes:

- ✓ Advising the NSG Windows on conducting integrity due diligence.
- ✓ Providing guidance regarding the identification, assessment and mitigation of integrity and related reputational risks in specific operations.
- ✓ Working with NSG Windows and other internal stakeholders to improve the IDB Group policies and procedures that apply to integrity due diligence.
- ✓ Providing training to the staff of NSG Windows on integrity and related issues.
- ✓ Communicating with other multilateral development banks to maintain a harmonized approach and a level playing field for NSG Windows with regard to integrity and reputational risks.
- ✓ Advising IDB Group management on integrity and related issues.

Guidelines Regarding Use of Foreign Entities in NSG Operations

In collaboration with other IDB Group units, the Office prepared the Non Sovereign Guaranteed Operations Use of Foreign Entities Guidelines (GN-2341-2) which was approved by the Operations Policy Committee and sent to the Board of Executive Directors for information in September 2011. The guideline requires disclosure by NSG operations to senior management or the Board of Executive Directors/Donors Committee when using certain entities registered in jurisdictions other than the country in which the Bank-financed activity is to be carried out. The Office of Institutional Integrity, working in collaboration with the Office of Risk Management, supports project teams with the risk assessment and the design of appropriate mitigation measures.

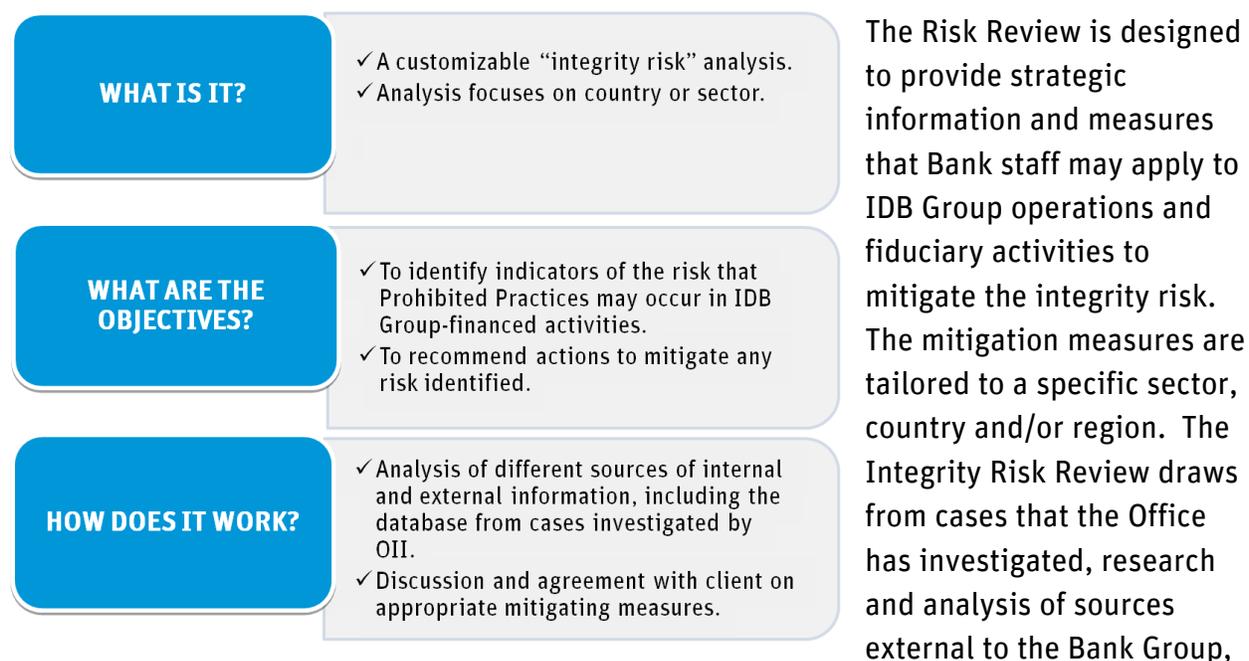
Methodology to Perform Fraud Risk Assessment of Non-Project Related Activities

The Office of Institutional Integrity developed a methodology to assess the risk of fraud in non-project related activities. The Office identified those steps in the corporate procurement process that could present integrity or reputational risks. In consultation with the Office of the Auditor General and the Corporate Procurement Division, the Office implemented a process to assess the risks of fraud in corporate procurement activities.

Integrity Risk Reviews

An Integrity Risk Review (Risk Review) is a sector or country-specific risk analysis prepared for the IDB Group's Country Departments, Sectors, and Country Offices by the Office of Institutional Integrity with the input of other interested IDB Group entities. The Risk Review offers an assessment of different sources of information to identify indicators of integrity and reputational risk, providing recommendations for mitigating actions. Risk Reviews are typically requested by IDB's Country Departments, Sectors, and Country Offices.

DIAGRAM 2: INTEGRITY RISK REVIEW



information from other units of the IDB Group, interviews of staff both in Country Offices and at Headquarters, as well as interviews of key national stakeholders.

The internal sources of information include Project Monitoring Reports, results from the Risk Management in Projects with Sovereign Guarantee, both prepared by the project teams, as well as information prepared by the Office of the Auditor General, the Institutional Capacity of the State Division, and the Operations Procurement Office. External sources of information include reports from government oversight agencies, technical documents from other multilateral development banks, academic research papers, and interviews with key stakeholders.

The results from the Integrity Risk Reviews are validated through a series of meetings with IDB Group staff, Executing Agencies, and representatives of the private sector, auditing firms and civil society.

Based on the conclusions of the Integrity Risk Review, and in collaboration with the Country Office, a written Integrity Action Plan is produced that includes actionable steps to mitigate the risks identified; parties who could take the lead in its implementation; timelines within which those steps will be completed; and mechanisms for the completion of such commitments.

In 2011, the Office of Institutional Integrity partnered with six Country Offices, at their request, on Integrity Risk Reviews. These Country Offices have demonstrated a deep commitment to integrity in the Bank's operations. The Office completed Risk Reviews for Paraguay and Peru. The Office also continued to advance the Risk Reviews for Bolivia and Nicaragua and initiated Risk Reviews for Argentina and Uruguay. An update on Integrity Risk Reviews for each country is detailed below:

Paraguay

The Office of Institutional Integrity concluded an Integrity Risk Review for Country Office Paraguay. The Office visited the Country Office Paraguay to deliver the results of the Risk Review. The mission included separate presentations to IDB Group staff, Executing Agencies, auditors, civil society organizations, and private sector firms. These presentations provided participants with information on the IDB Group's integrity policies, the investigative and adjudicatory mechanisms, and the available resources for consultation regarding integrity issues. Feedback from the participants was obtained and processed by the Office to prepare an Action Plan with follow-up steps to implement the recommendations stated in the Integrity Risk Review. A final Integrity Risk Review Report and Action Plan were delivered to the Country Office in 2011.

Peru

The Office of Institutional Integrity concluded an Integrity Risk Review for Country Office Peru. The Office conducted a mission to Lima to present the preliminary results of the Risk Review. The presentations focused on the IDB Group's integrity framework, the context in Peru and case studies. The Office also delivered a special training for project specialists on lessons learned from the most typical cases that had been investigated in Peru. A final Risk Review Report including lessons learned from cases and recommendations was delivered to the Country Office in 2011.

Bolivia

The Office of Institutional Integrity followed up the previous recommendations of the Integrity Risk Review for Country Office Bolivia to determine whether any actions remained to complete those recommendations. The Office continued to work with other Bank entities to complete those pending actions.

Nicaragua

The Office continued working on a Risk Review for Country Office Nicaragua by incorporating new elements that reflect the current status as well as information on cases investigated by the Office of Institutional Integrity in Nicaragua between 2004 and 2011. Such inputs are being included to define the integrity risk mitigation measures that will be reflected in the proposed Integrity Action Plan to be implemented in 2012.

Argentina

The Office of Institutional Integrity conducted an Integrity Risk Review for Country Office Argentina. To develop the Integrity Risk Review, the Office of Institutional Integrity reviewed documents and reports prepared by other units of the IDB Group, information from external bodies, including national agencies, other multilateral development banks, anti-corruption NGOs, prosecutors' offices, and academic institutions. To give context to this information, the Office of Institutional Integrity travelled to Buenos Aires to interview national key stakeholders such as representatives from various civil society organizations, audit firms, oversight bodies and agencies executing Bank-financed activities. Such inputs are being included to define the integrity risk mitigation measures that will be reflected in the proposed Integrity Action Plan to be implemented in 2012.

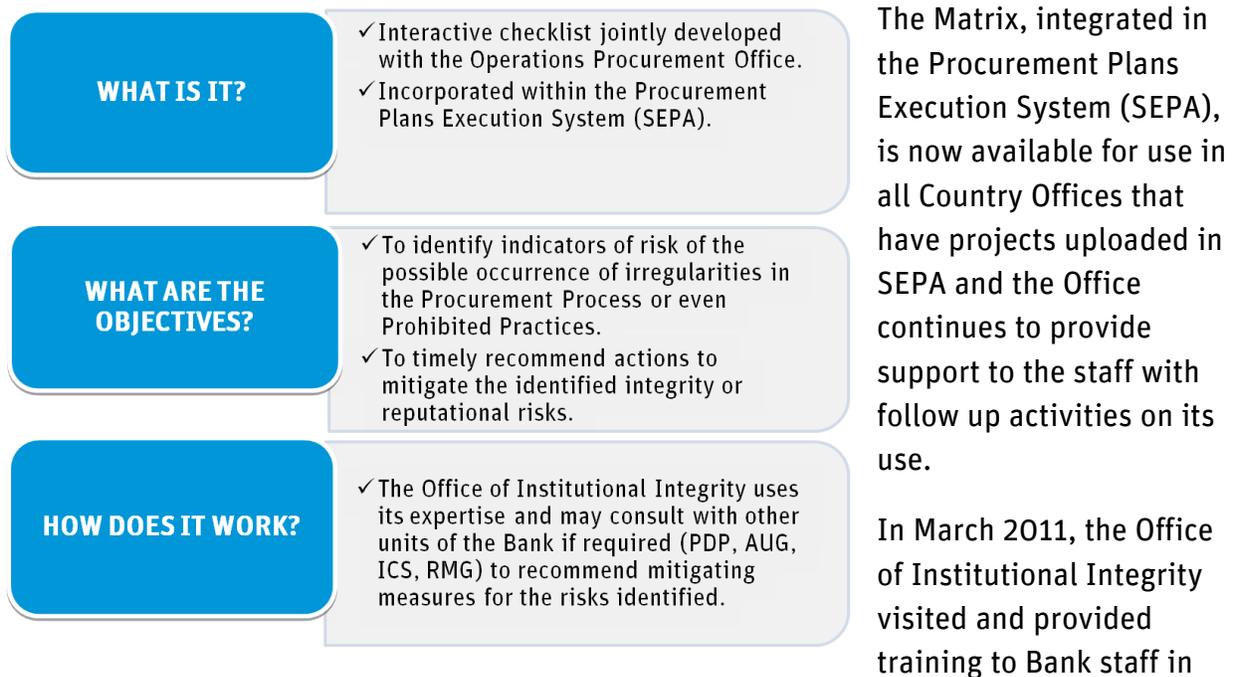
Uruguay

The Office of Institutional Integrity conducted an Integrity Risk Review for Country Office Uruguay. After the initial review of relevant documentation, the Office of Institutional Integrity travelled to Montevideo and held roundtable discussions and interviews with key national stakeholders, such as representatives from various civil society organizations, audit firms, oversight bodies and agencies executing Bank-financed activities. The Integrity Risk Review forms the basis for a discussion of concrete actions that the Bank can take to mitigate the integrity risks identified. Such inputs are being included to define the integrity risk mitigation measures that will be reflected in the proposed Integrity Action Plan to be implemented in 2012.

Red Flags Matrix

The Red Flags Matrix is an interactive list of indicators developed by the Office of Institutional Integrity with input from the Operations Procurement Office to assist fiduciary specialists in identifying and mitigating risks of fraud and corruption in project procurement. The Matrix, which is based on red flags identified in the Office's investigations and similar indicators used by peer institutions, is another preventive tool in the fight against fraud and corruption in IDB Group-financed activities.

DIAGRAM 3: RED FLAGS MATRIX



the Country Offices in Argentina, Paraguay and Uruguay. The participants were able to use the actual system online and provide the Office with feedback before the system was made operational. The Red Flags Matrix system is now implemented in Argentina, Paraguay and Uruguay. The Office of Institutional Integrity also conducted virtual training on the Red Flags Matrix to the Country Offices in Bolivia, Ecuador and Peru.

V. OUTREACH ACTIVITIES

A sound prevention strategy requires that staff members, borrowers and third parties are aware of the prevailing integrity standards and that they have the option to request advice and support to meet these standards. During 2011, the Office of Institutional Integrity instituted regular and periodic communications with Country Representatives and other key persons at the IDB Group. The Office's outreach activities are key to gain the support of, and work in partnership with, key stakeholders to fulfill the mission of the IDB Group.

The Office of Institutional Integrity's outreach activities during 2011 included:

Training

The Office of Institutional Integrity, together with the Knowledge and Learning Department (KNL), completed the design of two online knowledge tools, one for the Training Program on Integrity Risks and the other on the Red Flags Matrix. The objective of these online training programs is to educate IDB Group staff on integrity risks in IDB Group-financed projects and reduce the likelihood of Prohibited Practices, thereby improving the quality of the IDB Group's work. The Training Program on Integrity Risks seeks to (i) present and promote the Bank's policies, guidelines and structures related to integrity, (ii) familiarize the staff with the definitions of Prohibited Practices, and (iii) explain how the Office of Institutional Integrity serves as a resource for the IDB Group. The Red Flags Matrix course seeks to train IDB staff on the use of the Red Flags Matrix, an interactive checklist of indicators for assessing potential integrity risk in project procurement. These interactive tools include case studies and evaluation questions which will facilitate the understanding of the concepts which seek to enhance the learning experience. The courses will be available to Bank staff starting in January 2012 through the INDES platform.

Throughout the year, the Office also provided training and presentations on integrity-related issues to the Country Offices in Argentina, Barbados, Dominican Republic, Paraguay and Uruguay.

In collaboration with several Country Offices, the Office of Institutional Integrity also provided training to external parties. For example, in October 2011, the Office of Institutional Integrity provided a three-day training at the request of the Country Office in the Dominican Republic to representatives from Executing Agencies of IDB Group-financed activities, as well as training to governmental oversight agencies on integrity-related matters. Earlier in the year, the Office provided training on investigative techniques to oversight and control functionaries in Paraguay.

The Office also led trainings on integrity and investigation issues including briefings on the Foreign Corrupt Practices Act (FCPA), Anti-Money Laundering (AML), as well as a presentation by the Head of the Office of Foreign Assets Control (OFAC).

Support to Operational Divisions and Internal Audiences

Upon request of operational divisions, the Office of Institutional Integrity provides assistance to enhance their ability to prevent, identify and mitigate integrity risks. The Office also provides general advice to operations with anti-corruption and integrity components.

In January 2011, the Office of Institutional Integrity designed and sent out a survey to internal IDB Group clients to determine the staff's knowledge about the Office of Institutional Integrity's mission, services and the support it can provide to IDB Group-financed activities and project teams. The survey was sent to Managers, Division Chiefs, Country Representatives, Unit Chiefs, Sector and Procurement specialists, as well as Officers at the Inter-American Investment Corporation. The survey results allowed the Office of Institutional Integrity to tailor its work to better serve the IDB Group.

Throughout the year, the Office also delivered presentations about the Office of Institutional Integrity's mission, tools and services to a number of groups within the IDB Group, such as the Operations Financial Management and Procurement Services Office, the Office of External Relations, and the Sanctions Committee.

Finally, the Office provided reports to the Office of the Executive Auditor and the Office of Risk Management on institutional integrity.

Compliance System for Screening Heightened-Risk Individuals and Businesses

The objective of this project is to create a new compliance system to provide early and ongoing detection of those individuals or businesses in IDB-financed activities that pose integrity or reputational risk, thereby enabling mitigation of such risks. The new system would screen for individuals and businesses that pose heightened risk, providing adequate measures to avoid or mitigate risks from politically exposed individuals, financial criminals, companies acting as fronts or shells for organized crime, entities under government sanction or embargo, drug traffickers, arms dealers, terrorists, etc.

The new system would include functionality for seamless integration with the IDB's procurement systems and with the IDB's payment systems, and would have a direct link to an up-to-date risk intelligence database. The new system would also promote the flow of information amongst the IDB's different business units, thus enhancing the IDB response to potential reputational and integrity risks.

Collaboration with Other Multilateral Development Banks

The Office of Institutional Integrity continued to work closely and collaborate with the heads of integrity offices in other multilateral development banks and international financial institutions. The Office participated in regular meetings with these entities to discuss best practices and to harmonize its procedures.

In March 2011, the Office organized the *Second Annual Conference of International Financial Institutions on Efforts to Prevent Corruption and Other Prohibited Practices*, hosted by the Caribbean Development Bank (CDB) in Barbados. More than a dozen institutions shared their practices in preventing fraud and corruption. The International Financial Institutions represented at this conference included the IDB, IIC, CDB, World Bank, International Finance Corporation, African Development Bank, European Investment Bank, European Bank for Reconstruction and Development and the Central American Bank for Economic Integration. Representatives of the Barbados Government and the EU Mission to Barbados also attended the Conference. During the Conference, an online Community of Practice for integrity and compliance professionals at comparator institutions was launched and the Office chaired a meeting of integrity officers from all of the regional development banks to share best practices and improve communications.

During 2011, the Office also collaborated with the Central American Bank for Economic Integration in the preparation and launch of its anti-corruption program.

In May 2011, the Office of Institutional Integrity participated in the 12th Conference of International Investigators hosted by The World Bank. The Conference was designed to exchange views and information with other multilateral development banks and international organizations.

In October 2011, the Office hosted a delegation from the African Development Bank. The African Development Bank visited the IDB Group to exchange ideas about the Office's investigative procedures and the IDB Group's sanctions process.

In December 2011, the IDB hosted the roundtable discussion, *Leveraging Transparency and Integrity as a Condition to Sustainable Development*, to mark the International Anti-Corruption Day at headquarters in Washington, D.C. The roundtable discussion provided an opportunity to discuss progress in international anti-corruption efforts, review the IDB's strategic approach, as well as share experiences from transparency and integrity initiatives in the U.S., Mexico, Brazil and Chile. IDB President Luis Alberto Moreno and high-level officials from the region discussed the progress, challenges and opportunities surrounding transparency and the fight against corruption in Latin America and the Caribbean.

VI. EXTERNAL REVIEW OF THE IDB'S ANTI-CORRUPTION POLICIES

To ensure that the IDB maintained its leadership position on the issue of combating fraud and corruption, an independent external review of the IDB's capacity and mechanisms to detect fraud and corruption was conducted in 2008. This External Review (*Report Concerning the Anti-Corruption Framework of the Inter-American Development Bank*) was spearheaded by Richard Thornburgh and Jorge Santistevan de Noriega. The IDB's Board of Executive Directors approved an action plan proposed by Management to implement certain recommendations in the External Review. The Office of Institutional Integrity has assisted in efforts to implement the recommendations relevant to its work.

Throughout the year, the Office of Institutional Integrity provided periodic updates regarding the Action Plan for Implementation of the External Review Group's Recommendations on the Bank's Anti-Corruption Framework (GN-2440-3). These updates included the Office's work on:

- a. **New Case Management System:** A new case management system was developed for the Office of Institutional Integrity that replaces the current case management system with a more efficient and reliable system. The new case management system will, among other things, be supported by Information Technology Department rather than rely entirely on a sole external source. The acquisition of this system was approved under the 2011 capital budget envelope. The new case management system became operational in December 2011.
- b. **Case Triage Mechanism:** The triage mechanism forms a rational, repeatable, defensible basis for prioritizing investigations. Under the triage mechanism, the Office considers the totality of the facts and circumstances (as presently known), then categorizes investigations into three groups: (i) high; (ii) medium; or (iii) low; then pursuant to the analysis of predetermined factors, determines the best course of action with respect to an allegation. In 2010, a firm was selected via competitive process to conduct the analysis of the triage mechanism. The consultants delivered a final report to the Office that contained the results of their study and recommendations on the type of case selection mechanism that should be implemented by the Bank. This recommended proposal was submitted to Management, who asked the Anti-Corruption Policy Committee (ACPC) to consider it. The protocol was approved by the ACPC in September 2011.

- c. **Voluntary Cooperation Program:** A firm was selected via competitive process to conduct an analysis on the design and implementation of a Voluntary Cooperation Program under which an individual or firm may voluntarily disclose the existence of Prohibited Practices in IDB Group-financed activities. The consultant firm prepared a survey of voluntary disclosure programs at multilateral and governmental institutions, focusing on features that may be incorporated into the Voluntary Cooperation Program designed for the Bank. Additionally, the firm prepared, considering the Bank's particular needs, a draft of the Voluntary Cooperation Program. The draft Voluntary Cooperation Program was submitted to Management, who asked the ACPC to consider it. The ACPC decided to wait and monitor the implementation of the voluntary cooperation program at the World Bank before making a decision on the implementation of such a program at the IDB Group.
- d. **Cross-Debarment Agreement:** Five multilateral development banks signed the Agreement for Mutual Enforcement of Debarment Decisions on April 9, 2010 (GN-2550-1). The agreement became operational for the IDB Group on May 9, 2011. The Office of Institutional Integrity prepared, together with a number of IDB Group units, the Protocol for Notification of Sanctions Under the Agreement for Mutual Enforcement of Debarment Decisions. The ACPC adopted this Protocol in June 2011. Under the Protocol, the Office of Institutional Integrity is responsible for receiving the Notices of Debarment, reviewing the criteria, forwarding for comment and evaluation to relevant Bank units, and informing counterparts of the Bank's decision to recognize a debarment decision. The Secretary of the Sanctions Committee is responsible for posting sanctions, including cross-debarments, on the Bank's website.

VII. OFFICE OF INSTITUTIONAL INTEGRITY'S TEAM WORKING TOWARDS INTEGRITY

Over the past year, the Office of Institutional Integrity has pursued a focused recruitment strategy to enhance staffing and build up internal knowledge. The Office has hired professionals who have distinguished themselves in the legal and investigative profession. The Office now has a staff of professionals with extensive experience in investigations, auditing, public policy and related fields. This diverse team, which is almost 60% female, spans 10 different nationalities from member countries— representing Latin America, Europe, and the United States.

Table 5: Budget and Staffing

BUDGET AND STAFFING					
	2008	2009	2010	2011	2012
Budget (\$ in Millions)	2.6	2.7	2.8	3.1	3.0
Staffing	12	10	10	12*	12*

* Includes a staff member on detail to another department, and 3 vacant positions.

VIII. CONTACTING THE OFFICE OF INSTITUTIONAL INTEGRITY

Website : www.iadb.org/oii

Consultations e-mail: OII-consult@iadb.org

Allegations e-mail: Allegations@idbfc.org

Hotline: **1-877-223-4551**

Fax: **1-202-312-4029**

Postal mail or in person:

**Office of Institutional Integrity
Inter-American Development Bank
1300 New York Avenue, N.W. Mail Stop: B680
Washington, D.C. 20577 USA**

GLOSSARY

Allegation: Inquiry related to misconduct.

Case: Processing of the information related to Prohibited Practices in IDB Group-financed activities, from allegation stage through its conclusion.

Consultation: Inquiry pertaining to integrity issues.

Inquiry: Information which upon analysis may be classified as a consultation or an allegation.

Investigation: Examination of information related to potential misconduct to determine whether the information evidences a Prohibited Practice.

Substantiated: Case in which the evidence is sufficient to support a finding that the alleged Prohibited Practice occurred.

Unsubstantiated: Case in which the evidence is insufficient, either, to confirm or deny that the alleged Prohibited Practice occurred.

Unfounded: Case in which the evidence is sufficient to support a finding that the alleged Prohibited Practice is untrue.