

An aerial photograph of a city street, likely in a developing country, showing a mix of residential and commercial buildings. A large, dark blue diagonal overlay covers the right half of the image, creating a modern, graphic look. The text is overlaid on the left side of the image.

OFFICE OF INSTITUTIONAL INTEGRITY AND SANCTIONS SYSTEM

ANNUAL
REPORT
2018



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ACRONYMS

| | |
|---------|--|
| ACPC | Anti-Corruption Policy Committee |
| ADB | Asian Development Bank |
| AfDB | African Development Bank |
| AML/CFT | Anti-Money Laundering/Combating the Financing of Terrorism |
| AUG | Office of the Executive Auditor |
| EBRD | European Bank for Reconstruction and Development |
| EA | Executing Agency |
| EIB | European Investment Bank |
| FATF | Financial Action Task Force |
| IACC | International Anti-Corruption Conference |
| IDB | Inter-American Development Bank |
| IDD | Integrity Due Diligence |
| IFC | International Finance Corporation |
| IFI | International Financial Institution |
| IIC | Inter-American Investment Corporation |
| IRR | Integrity Risk Review |
| MDB | Multilateral Development Bank |
| OECD | Organization for Economic Co-operation and Development |
| OII | Office of Institutional Integrity |
| ORP | Office of Outreach and Partnerships |
| PCU | Project Coordinating Unit |
| ROI | Report of Investigation |
| RTS | Request for Temporary Suspension |
| SG | Sovereign Guaranteed |
| SLA | Service Level Agreement |
| SNC | Sanctions Committee |
| SO | Sanctions Officer |
| SOC | Statement of Charges |
| UN | United Nations |
| WBG | World Bank Group |

PREFACE BY THE CHIEF OF THE OFFICE OF INSTITUTIONAL INTEGRITY

Transparency and integrity are a top priority in the policy agenda of Latin America and the Caribbean.

In almost half of the countries of the region ongoing investigations for corruption are being pursued by national authorities, and an unprecedented number of officials and company executives are facing criminal proceedings. From Brazil's Operation Lava Jato to Argentina's Cuadernos de las Coimas, corruption cases have highlighted, on the one hand, the ability of local institutions to respond effectively, and on the other, the vulnerability of projects across the region, particularly infrastructure projects, creating a narrative of discontent among citizens.

Recognizing the challenges and opportunities this presents to the region, in October of 2018, President Luis Alberto Moreno announced at the Infrastructure Integrity Forum in Panama that the IDB Group's role will be to work with governments to understand the economic impact of this crisis and address gaps in accountability related to public works through preventive and remedial responses. As part of their long-standing contribution to the stated response of the IDB Group, the Office of Institutional Integrity (OII) and the Sanctions System provide a full range of integrity-focused support to the IDB Group and the operations it finances.

Since their establishment, OII and the Sanctions System (comprised of the Sanctions Officer and the Sanctions Committee) have developed and strengthened actions that help the IDB Group to mitigate and respond to integrity risks, including the occurrence of prohibited practices. These activities also support the efforts of executing agencies, private sector counterparties and other stakeholders to manage integrity risk and its associated reputational impact, since addressing corruption and fraud effectively requires collective action.

In 2018, in response to the regional context, we saw continued growth both in the demand for advice on how to manage integrity risks and in the complexity of the responses required. OII's prevention specialists worked closely with project teams to develop project-specific approaches to manage integrity risks, whether through integrity due diligence on IDB Invest projects, in early response to integrity risk indicators, or through integrity risk and reputational impact assessments in IDB-financed operations. The support has been well received and generated a culture of consultation.

Importantly and in line with international best practices, in 2018 IDB Management approved the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Framework, under which OII will have new compliance responsibilities related to the management of AML/CFT risks across all IDB transactions. Significant reforms of guidelines and procedures were achieved as well in the areas of cooperation with national authorities, conditional sanctions, and transparency of decisions.



Regarding OII's investigative function, media reporting on the various corruption cases in the region has had a measurable effect on the portfolio of investigations. In 2018, OII experienced a significant increase in high-impact, complex investigations. OII is increasingly working proactively with operational units to identify local media reports that suggest possible prohibited practices in IDB Group-financed activities. Similarly, OII is seeking cooperation from local authorities in its investigations of such allegations.

The investigative focus of OII has had an impact on the Sanctions System. The Sanctions Officer and Sanctions Committee have seen increasing complexity in the cases presented by OII, as well as a greater number of cases with outside counsel representing respondents throughout the sanctions' proceedings. A key highlight in 2018 was the first successful completion of conditions as part of a sanction imposed by the Sanctions Committee, that had to be met for the respondent to be released from debarment. The Sanctions Officer and Sanctions Committee will progressively contemplate and impose conditions, when warranted, tailored to the facts of each case and that, importantly, promote remediation of firms in the region.

At a time when issues relating to fraud and corruption have acquired a high level of complexity, OII and the Sanctions System continue to evolve and improve through a comprehensive 360-degree approach, including multifaceted actions to manage integrity risks tailored to the nature of IDB Group-financed operations comprising not only the design of practical and targeted measures to mitigate impact and correct vulnerabilities, but also the sharing of integrity-related knowledge with operational divisions, which contributes to the creation of a culture of integrity and compliance.

In facing the current and future challenges and opportunities that the regional context presents, OII and the Sanctions System will continue to increase deterrence and minimize the vulnerability of IDB Group-financed activities by strengthening our cooperation with other Multilateral Development Banks and national authorities, opening sources of information for prevention and investigations, and imposing appropriate sanctions to address misconduct.

It is a great honor, in my first year as Chief of OII and on behalf of my colleagues of the Sanctions System, to present our Annual Report for 2018, and to renew our commitment to apply the highest standards of professional rigor to safeguard the integrity of IDB Group-financed operations.

Laura Profeta

Chief, Office of Institutional Integrity

An aerial photograph of a two-lane road bridge crossing a wide river. The river is surrounded by dense green vegetation and trees. A semi-transparent green diagonal overlay covers the right half of the image. Several cars are visible on the bridge: a red car, a white car, a green car, and a dark car. The word 'INTRODUCTION' is written in white capital letters across the middle of the image, preceded by a white vertical bar.

INTRODUCTION

I. INTRODUCTION

A. Our Performance in 2018 at a Glance



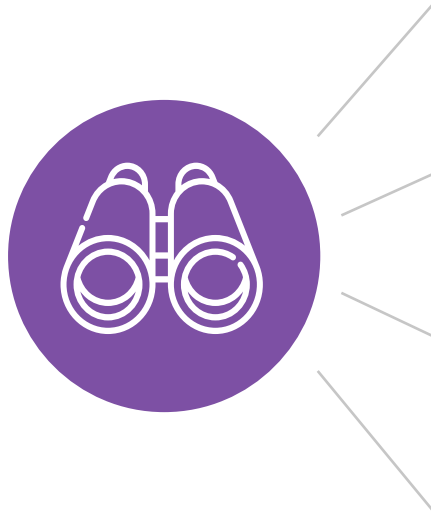
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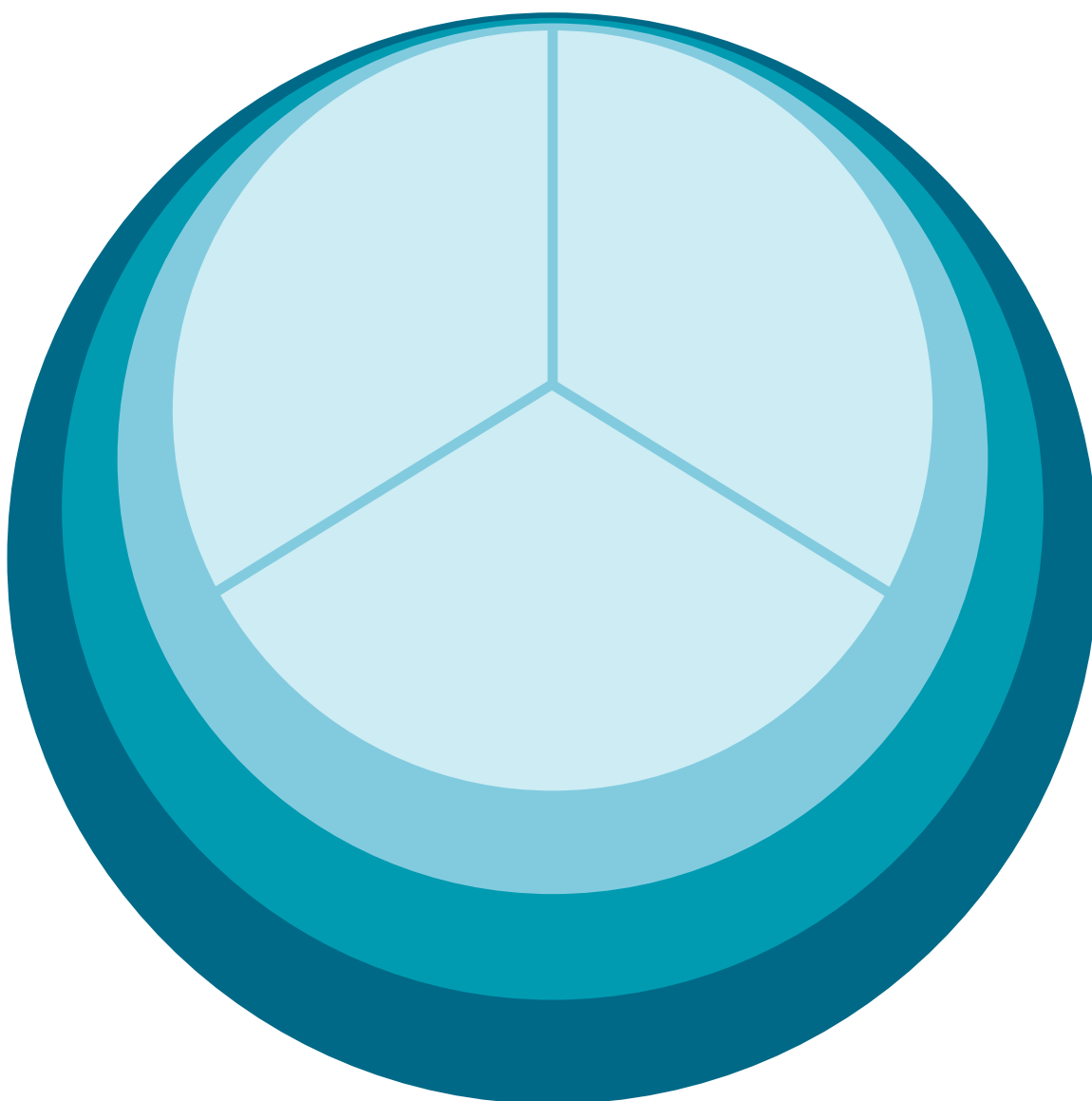




B. Our Approach in 2018

1. THE 360° INTEGRITY APPROACH

1.1. An Integral Approach to Integrity: OII's work is not limited to investigations. Rather, the integrity approach of OII and the Sanctions System protects Sovereign Guaranteed (SG) operations, Non-Sovereign Guaranteed (NSG) operations, and corporate projects through the entire project cycle, by preventing prohibited practices and other integrity risks, mitigating potential reputational impacts, conducting investigations, and issuing sanctions when necessary. This approach allows our specialists to continuously share valuable lessons learned while protecting the integrity of IDB Group-financed operations.



2. COOPERATION

In 2018, OII and the Sanctions System continued and deepened cooperation with counterpart Multilateral Development Banks (MDBs), other international organizations, and national authorities. Notable examples include:

1. OII participated actively in the meetings of the MDB Heads of Integrity and Heads of Integrity Due Diligence. Initiatives in 2018 included:
 - Detailed analyses of tax due diligence practices and discussion of harmonization of IDD methods.
 - Adoption of harmonized guidelines on referrals to national authorities.
 - Implementation of a platform designed and hosted by OII for the sharing of information by MDB integrity offices.
2. The Executive Secretariat and members of the Sanctions Committee participated in the MDBs' Sanctions Appeals Bodies Conference, with colleagues from the World Bank, African Development Bank, European Bank for Reconstruction and Development, the Global Fund, and the International Fund for Agricultural Development. The conference served to discuss important topics related to their duties and to strengthen cooperation among MDBs and relevant institutions.
3. OII and the Sanctions System participated in a benchmarking study conducted by the African Development Bank's Independent Development Evaluation unit on MDB integrity offices and sanctions systems.
4. OII engaged in formal and informal cooperation with national investigatory and prosecutorial authorities to obtain information on systemic risks or for specific investigations.

3. REFORM OF GUIDELINES AND PROCEDURES

Anti-Money Laundering/Combating the Financing of Terrorism Framework (AML/CFT)

In May of 2018, IDB Management approved an Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Framework, which formalizes the IDB's commitment to the management of the risks related to money laundering and terrorist financing in its operations. This AML/CFT Framework will ensure that the IDB has AML/CFT controls that meet industry best practices, correspond to the risks faced by the IDB, and consider its legal status as an international financial institution.

Implementation of the AML/CFT Framework, which applies to operations and corporate transactions of the IDB, will be led by OII and the Office of Risk Management (RMG). These units will conduct a risk assessment process of all IDB business units and recommend improvements to AML/CFT controls where necessary. Pursuant to the AML/CFT Framework, control recommendations should be fully implemented within two years from the date it was approved. In the implementation of the Framework, OII will perform an ongoing AML/CFT compliance and oversight function.

Guidelines Relating to Investigations and Sanctions

In November of 2018, the Anti-Corruption Policy Committee approved the following important reforms:

- **Referrals to National Authorities:** Adoption of harmonized guidelines for cooperation with and referrals to National Authorities agreed by the investigative offices of the AfDB Group, ADB, EBRD, EIB, and IDB Group, establishing uniform criteria for determining when a referral may be appropriate, and endorsement of procedural clarifications on the role of OII, the Sanctions System, and Management in the decision-making process on making referrals.
- **Publication of Decisions:** Considering the increasing number of decisions to date and consistent with the practice of other MDBs, as of January 2019 the IDB Group will be publishing Case Summaries for cases decided by the Sanctions Officer and Sanctions Committee. Going forward, such case synopses will further foster the accountability and transparency of the adjudication process, as well as educate the general public about the types of behavior that will qualify as sanctionable misconduct.



|| PREVENTION RESULTS

II. PREVENTION RESULTS

2.1 Corruption undermines the sustainable development of countries, distorts markets, disturbs social cohesion and jeopardizes the effectiveness and credibility of public institutions, representing a threat to the legitimacy of the state.¹ In recent times, corruption schemes have become more sophisticated and therefore combating and detecting misconduct requires more collaboration and technical knowledge.

2.2 In consideration of these vulnerabilities, OII has taken a more proactive approach to ensure that integrity risks in all IDB Group-financed operations are effectively assessed and managed. Integrity risk is defined as the risk arising from third parties engaging in prohibited practices and behaviors such as theft, conflicts of interest, waste or misappropriation of resources, money laundering or tax avoidance.²

A. Integrity Risk Management in Sovereign Guaranteed Operations

2.3 For Sovereign Guaranteed Operations, integrity risk management focuses on identifying and remediating weaknesses and vulnerabilities that could allow members of executing agencies, bidders, suppliers, contractors, consultants or other participants in IDB-financed operations to engage in prohibited practices or unethical behavior. The objective is to prevent or minimize the negative effects, such as financial losses or reputational impact, of fraud and corruption on achieving the development goals of the projects. This is the collective responsibility of sector and fiduciary project specialists and the approach is embedded within the project management process.

Figure 1: SGO Preventive Approach



¹ United Nations Convention Against Corruption. U.N. Office on Drugs and Crime, New York, 2004.

² Risk Taxonomy of the Inter-American Development Bank (GN-2547-13). Inter-American Development Bank, August 4, 2016.

2.4 During 2018, OII responded to 126 consultations regarding the assessment of integrity risk indicators and provided guidance on how to mitigate potential risks and their related reputational impact on the IDB and the operations it finances. The number of consultations in 2018 was 2.5 times the number processed in 2017.

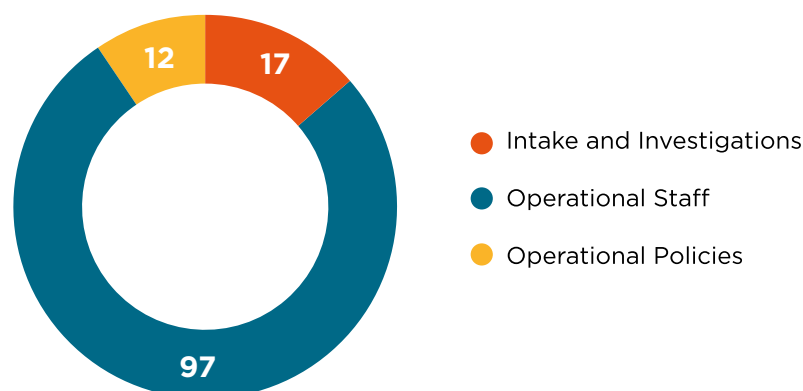
2.5 This increase can be explained on the one hand by the upsurge in the level of awareness, engagement and the ability of participants in the preparation and implementation of Bank-financed activities, to detect and respond to risk indicators. On the other hand, OII has contributed to this increase by taking a more proactive stance in sharing knowledge and highlighting integrity red flags that require a timely response from an operational perspective. The prevalence of national corruption investigations throughout Latin America and the Caribbean is another factor contributing to the increase in consultations on risk prevention and mitigation.

2.6 The main triggers for the consultations can be grouped into three categories (see Figure 2):

- **Operational Staff:** Project teams and senior managers seeking guidance about how to assess and mitigate integrity risk and reputational impact. This category accounts for almost 80% of the consultations to OII.
- **Intake and Investigations:** OII identifying indicators of integrity risk while assessing a complaint or investigating an allegation of prohibited practice that may require a timely operational response. These proactively generated consultations represented 13% of the total.
- **Operational Policies:** Compliance with the Bank's operational policies require that Sovereign Guaranteed (SG) project teams identify and assess integrity risks of the project during the preparation of operations to inform, from an integrity perspective, the operation's risk management strategy.³ These consultations represent 10% of the total.

2.7 The distribution of consultations by trigger remains unchanged as compared to 2017.

Figure 2. Consultations



³ Guidelines to Process Loans Based on Results (GN-2869-3) and Guidelines for Project Risk Management for Sovereign Guaranteed Operations (OP-1699-1).

2.8 The issues on which OII provided advice involved a variety of topics. However, as Table 1 shows, two categories were more prominent. The first category pertains to engagements that requested OII's advice to assess situations where an integrity red flag had been detected in an on-going IDB-financed procurement process or contract. Specifically, project teams would request OII's expert advice to assess whether situations such as leakages of information, undisclosed agents or possible misrepresentations, among others, would affect a specific IDB-financed procurement process or contract. The request for advice also included recommendations to mitigate said risk. To respond to these consultations, the preventive team worked closely with the investigative function of OII, to seek their input in assessing the risk and to ensure that if there was any indication that a prohibited practice might have occurred, OII would be able to take appropriate action.

2.9 The second category aggregates situations in which operational staff sought OII's expertise to determine whether integrity-related matters could have an impact on the Bank's or the program's reputation, and how to mitigate said impact. As the table below shows, this type of issue increased from representing 10% of the consultations in 2017 to represent 19% of the issues discussed this year. This increase could be explained by the complex context in which the programs are implemented, and by a greater awareness of the impact that information related to corruption and fraud might have in the programs the IDB finances.

2.10 Finally, other issues include the impact of sanctions on companies bidding or participating in IDB-financed contracts; how to ensure the Bank's rights to investigate through integrity provisions in contracts; whether situations presented a conflict of interest and in turn, if this would increase the integrity risk; and ensuring compliance with the Bank's policies concerning integrity risk management.

Table 1: Issues Addressed in SG Consultations

| Type of Issue | 2017 | 2018 |
|---|-------------|-------------|
| Possible or Alleged Prohibited Practice | 33% | 22% |
| Reputational Impact | 10% | 19% |
| Contractual Language/Integrity Provisions | 11% | 16% |
| Eligibility and Cross-Debarment | 14% | 11% |
| Conflict of Interest | 14% | 10% |
| Past Integrity Issues | 6% | 10% |
| Compliance with the Bank's Operational Policies | 6% | 7% |
| Others | 5% | 5% |
| Total | 100% | 100% |

Notes: Percentage of total issues addressed in consultations.
Numbers might not add up to 100% because of rounding.

2.11 Of the 126 consultations, 96 occurred during the implementation stage of the programs. The consultations for programs under implementation primarily required advice regarding risk factors related to specific procurement processes. Red flags were mostly identified during the award phase of the procurement processes, followed by the evaluation of bids, preparation and execution phases. This distribution mimics the distribution of consultations processed in 2017 (see Figure 3).

2.12 Given the cross-fertilization that exists among the different functions, OII's preventive team collaborated with the investigative team in many of these engagements, and in some cases with the team advising IDB Invest, to provide a more complete response to the interested party.

Figure 3. Consultations throughout the Procurement Cycle



2.13 During 2018, OII addressed consultations linked to programs arising in the five operational sector departments of the Bank, as follows: 55 from Infrastructure and Energy; 21 from Climate Change and Sustainable Development; 19 from Institutions for Development; 15 from the Social Sector and two from Trade and Integration. The 14 remaining consultations were not related to a specific sector.

CASE STUDY 1

One Procurement Process: Multiple Issues

| | |
|--|--|
| Issues: | <p>During the evaluation and award of a large IDB-financed contract, OII received questions and information related to several integrity risk indicators that required assessment and guidance:</p> <ul style="list-style-type: none"> • The impact of a World Bank-imposed sanction on the evaluation of bids. • A protest from a losing bidder during the award of the contract, alleging non-compliance by the selected company with financial requirements. • Allegations by the same bidder that an individual claiming to be an IDB employee requested bribes for awarding the contract. |
| OII's Response: | <p>Regarding the World Bank sanction, OII identified that the company in question had reached a negotiated resolution agreement with this MDB, and as a result had received a six-month sanction for fraud that did not affect its eligibility to participate in IDB-financed contracts. However, the company's background constituted a risk factor, so OII recommended that the Executing Agency (EA) conduct enhanced due diligence on its bid.</p> <p>As for the second issue, OII compared the information the company submitted in its offer with public financial records, finding indicators that the information presented in the bid may have been misrepresented. Because the contract had already been awarded, OII recommended close supervision of contract implementation and of any requested amendments.</p> <p>OII and the anti-corruption unit of the EA analyzed the information provided by the bidder about the bribes requested and the information turned out to be untrue, but it signaled a possible leak of confidential information about the bidding process.</p> |
| Lessons Learned and Next Steps: | <p>Executing agencies should perform due diligence on bids to mitigate the risk that a company may misrepresent its ability to implement a contract, which could affect the development outcomes of a program. In this regard, OII will organize a training activity for this EA.</p> |



2.14 Integrity Risk Analyses. As part of OII's preventive activities, the Office conducts integrity risk analyses of either a program, a sector or a cross-cutting topic to identify and assess integrity risks that might affect an IDB-financed program's ability to achieve its expected results. In 2018, OII prepared two integrity risk analyses.

2.15 First, OII conducted an Integrity Risk Review (IRR) of an education program that was ending with the purpose of informing the risk strategy of a new and recently approved program to be implemented by the same executing agency. The IRR is an analysis of the performance of an IDB-financed operation with respect to compliance with the Bank's policies, guidelines and contractual obligations, conducted at a point during the life of the project, with a view to identifying strengths and weaknesses that may mitigate or increase integrity risk and its associated reputational impact on the program and/or the Bank. In 2018, OII re-initiated the use of this tool, which had not been utilized since 2016. OII intends to continue utilizing the IRR tool in 2019.

2.16 Second, it conducted an analysis in IDB-financed activities associated with information technology (IT). The objective of the second analysis was to identify factors associated with, contributing to, or facilitating the occurrence of prohibited practices or other unethical behavior in IDB-financed activities associated with IT.

2.17 Reports of Investigation. OII extracts lessons learned from investigation findings and shares this knowledge with operational staff through Reports of Investigation (ROIs). These reports communicate any deficiencies or weaknesses in an IDB Group-financed operation that were identified during the investigation and suggest concrete areas of action to address them.

2.18 In 2018, OII shared five ROIs with the relevant Bank Country Managers, Sector Managers, Division Chiefs, Country Representatives and the Chair of the Anti-Corruption Policy Committee (ACPC). These reports are also discussed with the relevant project teams to inform them of the findings of the investigation and agree on the recommendations to consider for design and implementation of the program or future operations under a similar context.

CASE STUDY 2

Report of Investigation: **Unresolved Conflict of Interest**

| | |
|--|---|
| Allegation: | In 2017, the project team of a technical cooperation informed OII of a possible conflict of interest between the technical coordinator of the Executing Agency (EA) and the legal representative of the company that had been selected to provide services for a key study of an IDB-financed program. |
| Investigative Findings: | OII found evidence that the program's Technical Coordinator, in charge of preparing the terms of reference for the contract and who was also part of the evaluation committee resulting in the award of a contract to Company A, had been leasing a housing unit at the residential property of the legal representative of Company A's family home while the procurement process had been on-going, and had previously worked for the company. Neither the company nor the Technical Coordinator disclosed these financial and business relations to the EA or to the Bank, as required by the Bank's procurement policies. |
| Lessons Learned and Recommendations of the ROI: | <p>In this case, even though OII found evidence of the improper relationship and of favoritism during the procurement process, neither the contract between the EA and the coordinator, nor the procurement-related documents for the consulting services included references to the obligation to disclose a potential or real conflict of interest, or to the Bank's integrity provisions, limiting potential action by OII.</p> <p>However, through the ROI, OII communicated the findings to the project team and provided recommendations to correct the weaknesses that allowed the integrity risk to materialize. The recommendations included a template to ensure all contracts signed by the EA and financed by the Bank, reflect the integrity provisions and require that the Operating Regulations of the Technical Cooperation incorporate guidance on the management of conflicts of interest.</p> |
| Additional Actions: | The integrity provisions template prepared for the technical cooperation was adopted for small value contracts in several other IDB-financed programs in the same country for this EA. |



B. Advice to IDB Invest, IDB Lab and the Office of Outreach and Partnerships

2.19 In 2018, OII continued to oversee the Integrity Due Diligence (IDD) conducted by IDB Invest on all IDB Invest operations pursuant to the IIC's 2016 Integrity Framework.⁴ In addition, where necessary, OII assessed the AML/CFT systems of financial institution clients of IDB Invest and assessed whether the use of cross-border corporate structures by IDB Invest clients presented tax or structural risks.

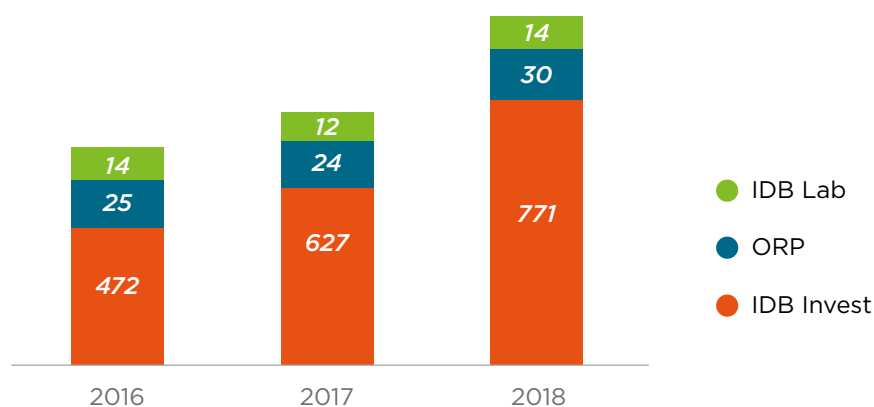
2.20 In general, 2018 showed a continued rapid increase in the number of consultations related to IDB Invest operations. In total, OII responded to 771 IDB Invest consultations, resulting in a 23% increase over 2017, and a 63% increase since the 2016 merge-out (see Figure 4).

2.21 OII responded to 581 consultations in origination in 2018, representing approximately 25% more than in 2017. That number does not capture, however, the significant effort OII undertook—in connection with national corruption cases like the *Cuadernos* matter in Argentina—to identify potential exposure in the IDB Invest portfolio and to help manage the resulting risks.

2.22 Similarly, these numbers do not reflect the qualitative changes in the support OII provided to IDB Invest. As IDB Invest operations become increasingly complex, OII has supported the development of new approaches, new legal provisions and more nuanced integrity analyses, to ensure that integrity standards are maintained.

2.23 One measure of those integrity standards is the result of the IDD that is conducted on all IDB Invest operations. If IDD uncovers material integrity or reputational risks, those risks are mitigated where possible and disclosed to decisionmakers including the Board of Executive Directors. Such disclosure is a key element of the integrity approach adopted by IDB Invest and OII. These disclosures generally describe facts that trigger heightened integrity and reputational risks, but also describe the basis for comfort in proceeding with the operation. This basis for comfort—which is agreed by IDB Invest and OII—frequently includes mitigation measures that are incorporated in the financing documents.

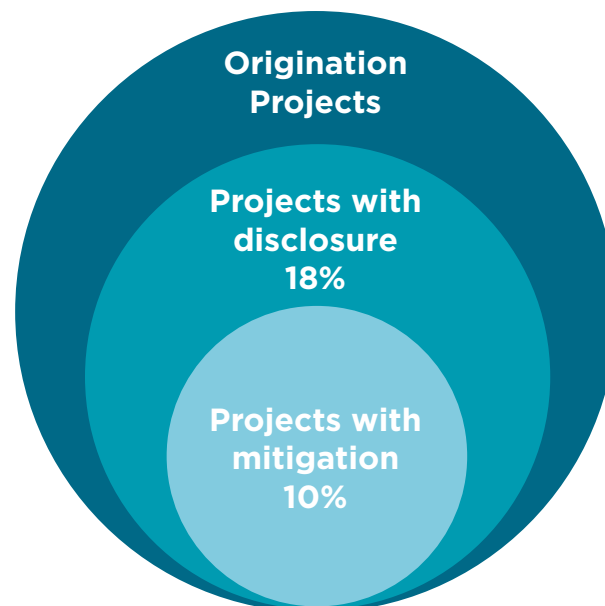
Figure 4. Total OII consultations on IDD in 2018



⁴ This is the original title of the integrity framework document used by IDB Invest.

2.24 When the integrity or reputational risks exceed risk tolerance, and those risks cannot be adequately mitigated, OII recommends that projects in origination be dropped or otherwise not pursued. When such risks arise in portfolio projects, OII communicates that assessment to IDB Invest and works with them to develop a plan to exit the project or otherwise mitigate risks. In 2018, OII made such recommendations for 29 projects based on integrity or related reputational risk – including two projects in portfolio and 27 projects in origination (10% of all projects in origination). Figure 5 illustrates those projects that presented integrity or reputational risks that merited disclosure but were within risk tolerance – 18% of all projects in origination. Of those disclosures, 10% incorporated measures to mitigate integrity risks.

Figure 5. Percentage of IDB Invest Projects in Origination with Disclosures and Mitigation Measures



2.25 Like IDB Invest, IDB Lab has adopted an integrity due diligence model to manage the reputational impact that can arise from its operations. While IDB Lab's integrity review method is generally consistent with the one applied by IDB Invest, some differences result from varying degrees of risk presented by IDB Lab's operations and counterparties, particularly the recipients of IDB Lab's technical cooperation grants. OII provides advice and technical support to IDB Lab upon request. In 2018, OII engaged in 14 consultations for IDB Lab projects, increasing 16% compared to 2017.

2.26 Similarly, the Office of Outreach and Partnerships (ORP)—which manages the IDB's efforts to mobilize third party resources—and OII worked together to develop a due diligence analysis that allows ORP to manage the reputational impact that can arise from partnerships or other collaboration with private sector entities. OII provides regular advice to ORP regarding the integrity risks posed by specific proposed partnerships. OII engaged in 30 consultations for ORP projects in 2018 – which constituted the highest amount in the last three years, with a 25% increase from 2017.

IDB Invest: **Cross-Border Corporate Structures**

In 2018, OII assessed the risks presented by the cross-border corporate structures of a potential client, a significant economic group with operations in nine countries. Based on its review, OII concluded that the cross-border corporate structures used by the group—which comprised over 50 entities—presented integrity and reputational risks that exceeded IDB Invest’s risk tolerance.

This conclusion was based in part on findings that the structures were complex, opaque and used high-risk vehicles (including bearer shares) and entities located in high-risk jurisdictions. But a core finding was that the structures were based on an improper purpose: to protect the company from the enforcement of court judgments related to a long-standing dispute among shareholders.

In light of these concerns, the client agreed to restructure its businesses in a way acceptable to IDB Invest. Specifically, it agreed to eliminate all bearer shares and vehicles in jurisdictions presenting Tax Information Exchange Risk (based on the output of the Global Forum on Transparency and Exchange of Information for Tax Purposes). The client also agreed to simplify its overall structure in accordance with certain agreed principles.

This was a significant undertaking for this client, and a significant achievement for IDB Invest. By helping the client develop a more transparent corporate structure, IDB Invest helped the company align with international best practices, improve its corporate governance and increase its ability to obtain international financing.



C. Training and Outreach Activities

2.27 OII provides training to: (i) increase awareness of the IDB Group's integrity framework and relevant policies, and the corresponding responsibilities of IDB Group employees, executing agencies, beneficiaries of IDB Group financing and private sector entities; and (ii) provide tools to manage integrity risk in IDB Group-financed operations.

2.28 During 2018, OII carried out 31 training activities offered to IDB Group personnel and partners such as executing agencies and representatives of the private sector, in Headquarters and nine borrowing member countries. It also provided input to the IDB mandatory training on Ethics (see Table 2).

2.29 Most of the sessions were face to face. However, seeking to respond to the growing demand for this service, OII piloted a virtual training with personnel of executing agencies in a borrowing country to teach best practices on how to detect red flags of prohibited practices. The training consisted of a simulation exercise delivered through an online platform and videoconference with OII and expert staff from a university who facilitated the discussion.

Table 2. Trainings by Category

| Type of Activity | Number |
|---|--------|
| Orientation Seminar | 4 |
| Integrity in IDB Group-Financed Operations | 8 |
| Integrity Risk Management | 3 |
| Integrity in IDB Group-Financed Operations for External Audiences | 3 |
| Integrity Risk Management in IDB Group-Financed Operations | 8 |
| Integrity Due Diligence (IDD) Orientation | 3 |
| Contribution of Representatives to IDD | 2 |
| Contribution to the Ethics Course | 1 |

2.30 Additionally, OII carried out the following outreach efforts:

- Issued ten integrity bulletins to communicate with the Bank's personnel regarding the Office's activities and to share lessons extracted from investigations and integrity risk analyses.
- Participated in panels at the International Anti-Corruption Conference; the European Investment Bank's commemoration of International Anti-Corruption Day; the International Corruption Hunters Alliance; and the Spanish Institute for Foreign Trade (ICEX).

D. Key Takeaways and Challenges

2.31 In 2019, OII will continue with its efforts to create an institutional culture in which both corporate and project teams see the value added of seeking OII's advice to manage integrity risks. In addition, the Preventive function will continue to seek opportunities to take advantage of technological tools, to deliver virtual interactive trainings, and to ensure that both operational staff and client partners have a solid basis to manage integrity risks. OII will also explore partnerships with other IDB Group offices to deliver key integrity messages in program risk and kickoff workshops; learning products and tailored trainings for executing agencies, country offices and sector departments that require customized and targeted support. Other areas of opportunity for OII include enhancing its capacity to identify integrity patterns and risks at earlier stages of IDB Group-financed operations. In addition, implementation of the AML/CFT Framework will be a strategic focus in 2019.

2.32 In connection with IDB Invest activities, OII will continue to manage a project flow that is increasing in both volume and complexity. OII will also increase its effort to improve training and communication around integrity matters with IDB Invest staff.



INVESTIGATIONS RESULTS

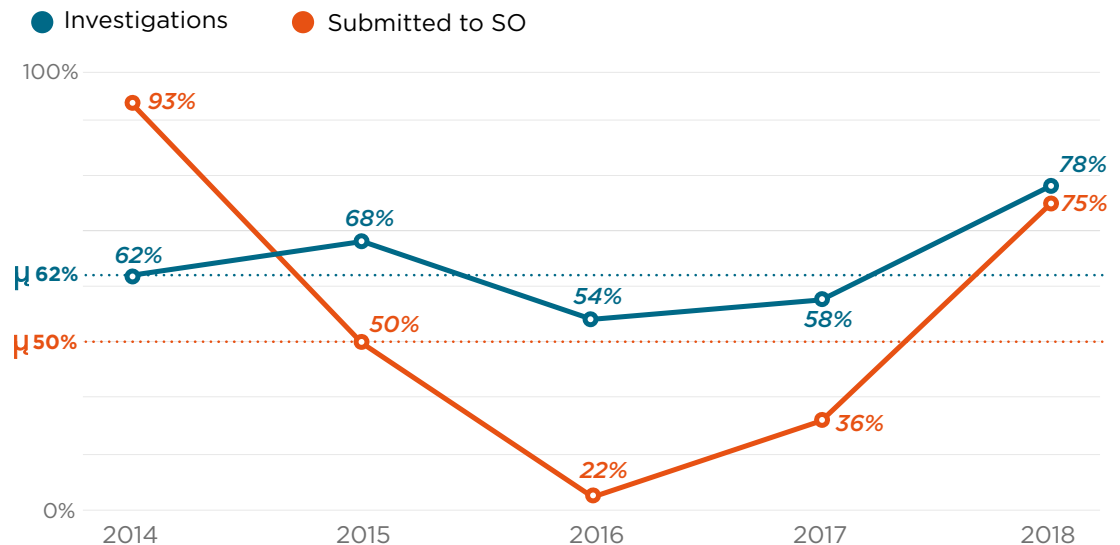
III. INVESTIGATIONS RESULTS

A. Investigations Outputs

3.1 The IDB Group has a zero-tolerance approach to fraud and corruption in its operations. As it applies to OII, zero-tolerance means that the investigative unit responds to all allegations it receives. OII responses are not limited to investigations, and often include operational remedies coordinated with OII's Preventive function, team leaders and executing agencies. When assessing its response to complaints, OII considers the severity of the alleged misconduct and other operational factors using a triage system. Triage aims to place maximum investigative resources on high impact investigations; i.e., allegations of corruption, collusion, fraud in execution of a contract, or allegations made against executing agencies. In principle, these case types entail a higher threat of systemic risks to a program or likelihood of direct harm to beneficiaries.

3.2 As presented below, OII's triage system has improved the ratio of high impact to regular cases (Figure 6). In 2018, over two-thirds of OII's preliminary and full investigations related to high impact issues, 16% over the median. These improvements also increased the number of high impact cases that OII submitted to the Sanctions Officer in 2018, to 75%, which represents a 25% increase over the median.

Figure 6. Percentage of High Impact Investigation 2014-2018



3.3 In 2018, OII enhanced monitoring of regional press coverage of fraud and corruption investigations, public prosecutions, and related issues. This enabled OII to proactively initiate a record number of matters based on credible media sources (11% of the total number of new complaints). Over the course of 2019, OII will work with other units to continue to strengthen monitoring of the press for red flags and potential indicators of prohibited practices in IDB Group-financed activities.

3.4 As presented in Table 3, 115 complaints were submitted to OII in 2018, a similar number to 2017.

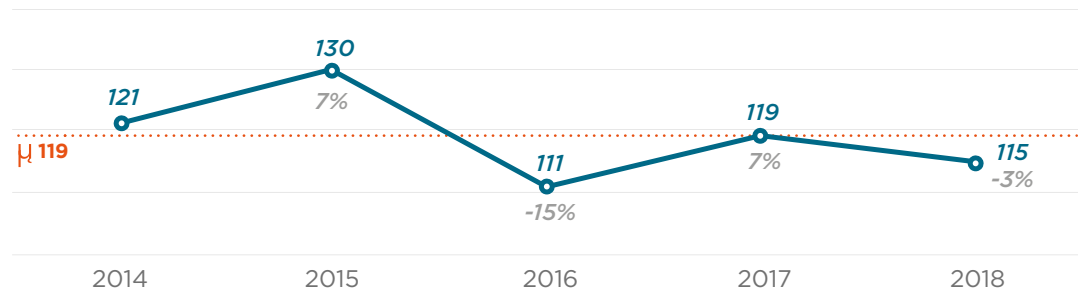
Table 3. OII's investigative Caseload for 2018

| | | |
|-----------------------------------|--|---|
| Complaints Processing | Carried from 2017: 16 New: 115 Total: 131 | Converted to preliminary investigations: 24 Closed: 83 Carried to 2019: 24 |
| Preliminary Investigations | Carried from 2017: 17 New: 24 Total: 41 | Converted to full investigations: 13 Closed: 12 Carried to 2019: 16 |
| Full Investigations | Carried from 2017: 12 New: 13 Total: 25 | Unsubstantiated: 2 Substantiated: 6 Carried to 2019: 17 |
| Post-Investigations | Carried from 2017: 6 New: 6 Total: 12 | Statement of Charges submitted: 7 Carried to 2019: 5 |

3.5 In 2018, the total number of complaints submitted by region and the aggregated source of complaints were proportional to previous years (Figures 7, 8, and 9).

Figure 7. Complaints 2014-2018

Complaints: New



Complaints: Total Active & Total Processed

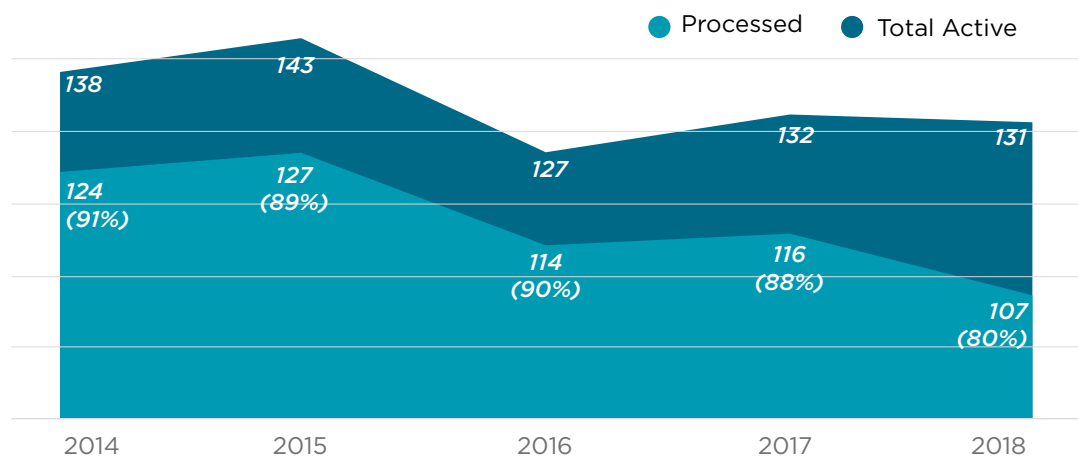
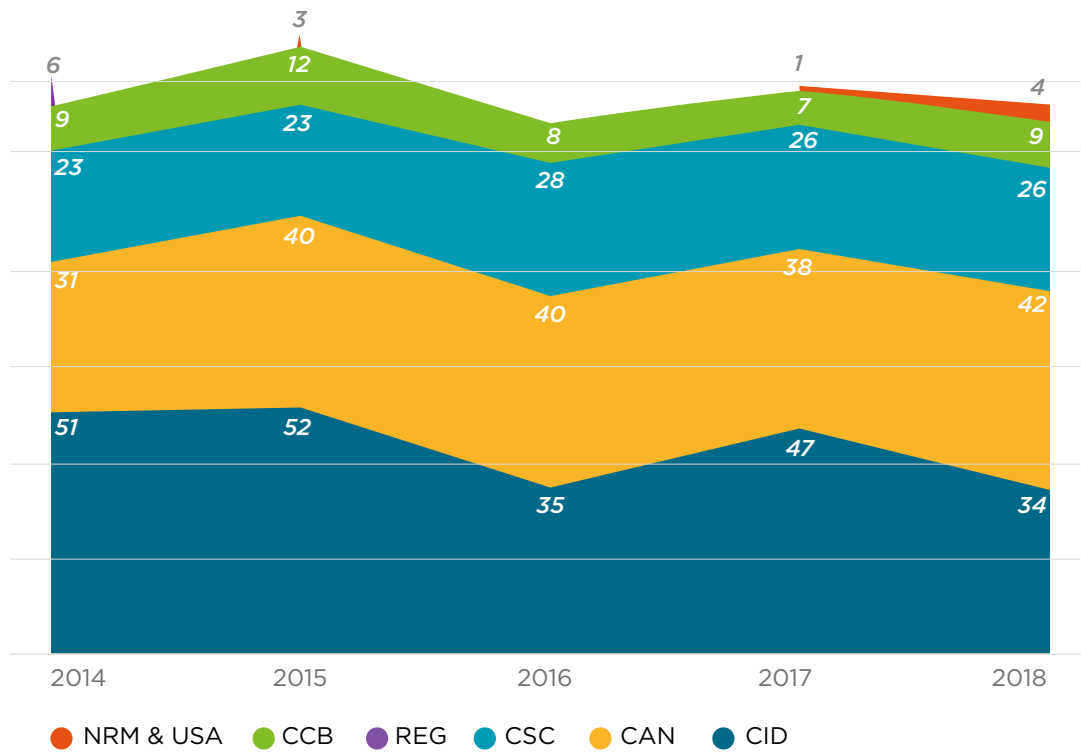
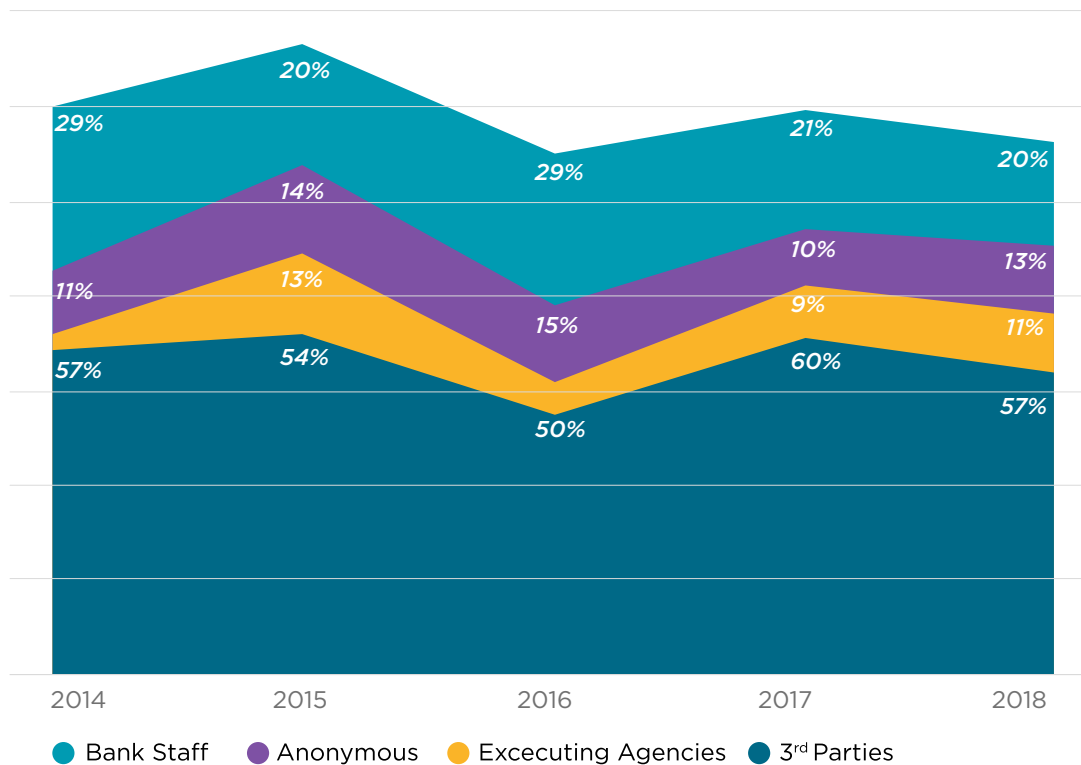


Figure 8. Complaints by Region 2014-2018



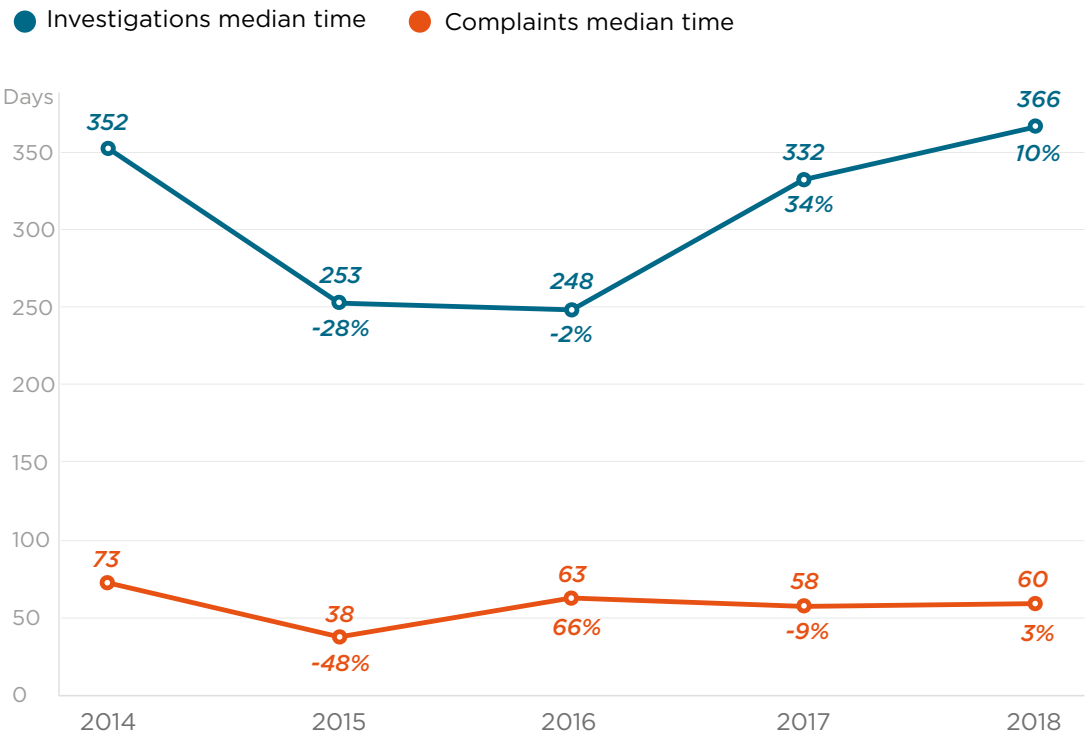
Note: Numbers might not add up to total number of complaints received due to missing data.

Figure 9. Source of Complaint 2014-2018



3.6 In 2018, processing times changed minimally to moderately in various phases (Figure 10). The median time taken to process complaints and investigations increased slightly by 3% to 60 days and 10% to 366 days, respectively.⁵

Figure 10. Days to Process Complaints and Investigations



3.7 The percentage of complaints and investigations processed decreased slightly (-8% and -6%, respectively), and investigations carried over to the following calendar year increased by 12% (Table 3, Figures 7, 10 and 11). These increases were due primarily to the higher percentage of complex investigations which required more analysis, missions, interviews, and occasional reliance on assistance from national authorities. Notwithstanding the larger number of complex investigations, OII increased the percentage of substantiated investigations (cases in which OII found that a prohibited practice occurred) to 75% (+18%), while maintaining the percentage of final decisions⁶ resulting in a sanction at 88% (Figure 13). Importantly for 2019, the higher number of carry over cases imply that more cases are near completion, which following the investigative cycle will result in more Statements of Charges (SOCs) in 2019.

⁵ "Processing time" refers to the time taken to close or convert a complaint to an investigation, or time taken to close or complete an investigation, in days.

⁶ The term final decision means that there was either no appeal and the Sanctions Officer's decision was final or that, if appealed, the decision was upheld.

Figure 11. Investigations: Total Active and Total Processed, 2014-2018

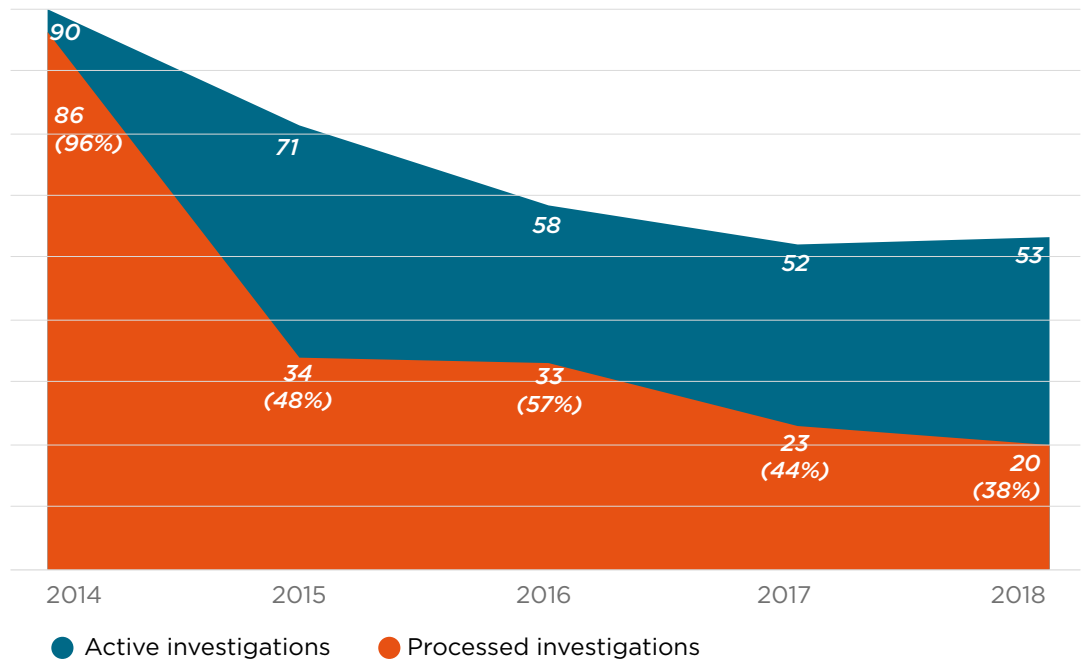


Figure 12. Statements of Charges (SOC), 2014-2018

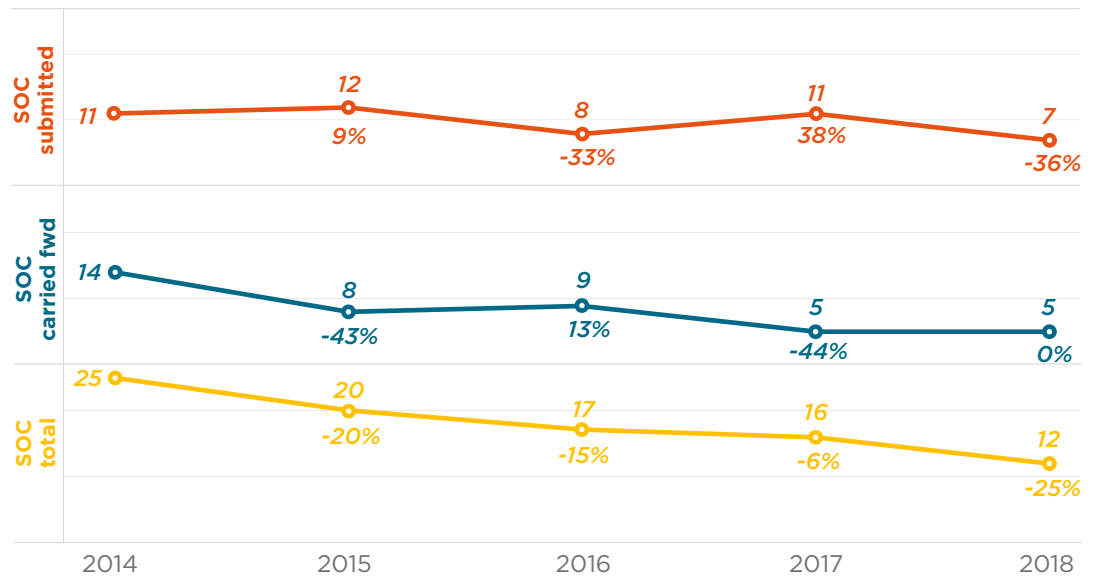
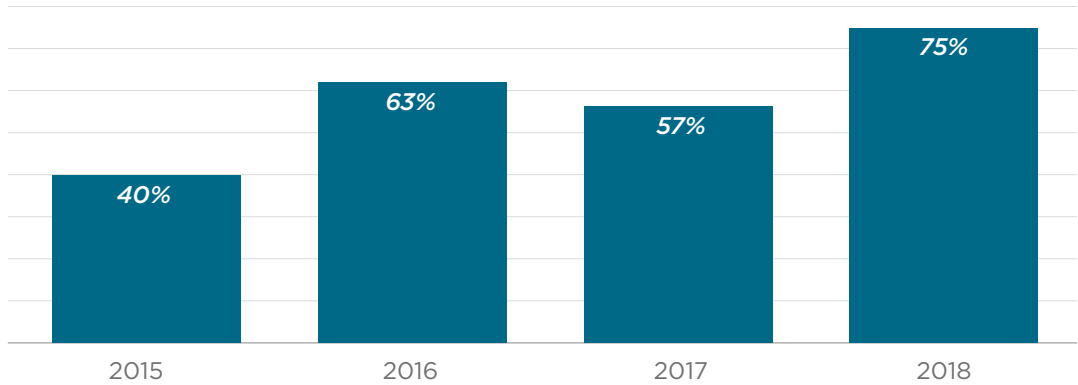
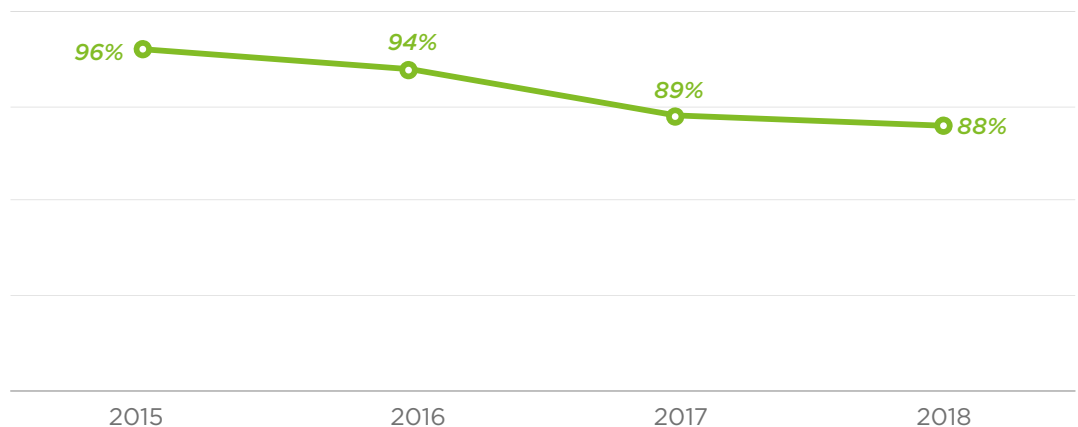


Figure 13. Percentage of Substantiated Investigations and Positive Final Decisions 2014-2018

Percentage of Substantiated Cases (2014-2018)



Percentage of Final Decisions Resulting in a Sanction (2014-2018)



B. Negotiated Resolutions

3.8 An additional component of OII's strategy to complete high impact investigations is the use of Negotiated Resolution Agreements (NRAs). As stipulated in the Sanctions Procedures, OII uses NRAs very selectively in complex investigations where the subjects are able and willing to provide information about prohibited practices and systemic integrity risks in affected operations.

3.9 In 2018, OII conducted three NRA engagements concluding one that resulted in a four-year debarment. OII anticipates it will continue to use NRAs selectively and when warranted based on the value of the cooperation to be obtained and will incorporate lessons learned from its initial experiences.

C. Key Takeaways and Challenges

3.10 The figures demonstrate evolving trends in case volume, typology, timeliness, impact, and efficiency. Over the last few years, OII reduced the percentage of complaints that are converted to investigations, steadying at 18-20%. By improving filtering at early phases, OII increased the percentage of high impact and complex investigations significantly, by 16% over the median. Although this complexity requires increased processing time, results show a high rate of success for OII. Moreover, during the last four years OII increased the substantiated full investigations rate from 40% to 75% and maintained a stable percentage of final decisions resulting in a sanction, even as the cases have become more complex.

3.11 In the year ahead, OII's investigative function's main challenge will remain the timely completion and submission of complex investigations to the Sanctions System. OII will monitor the pace of case production and implement efficiency measures where needed, while at the same time continuing to provide frequent input to the affected operational units to remedy risks where they arise.

NEGOTIATED RESOLUTIONS

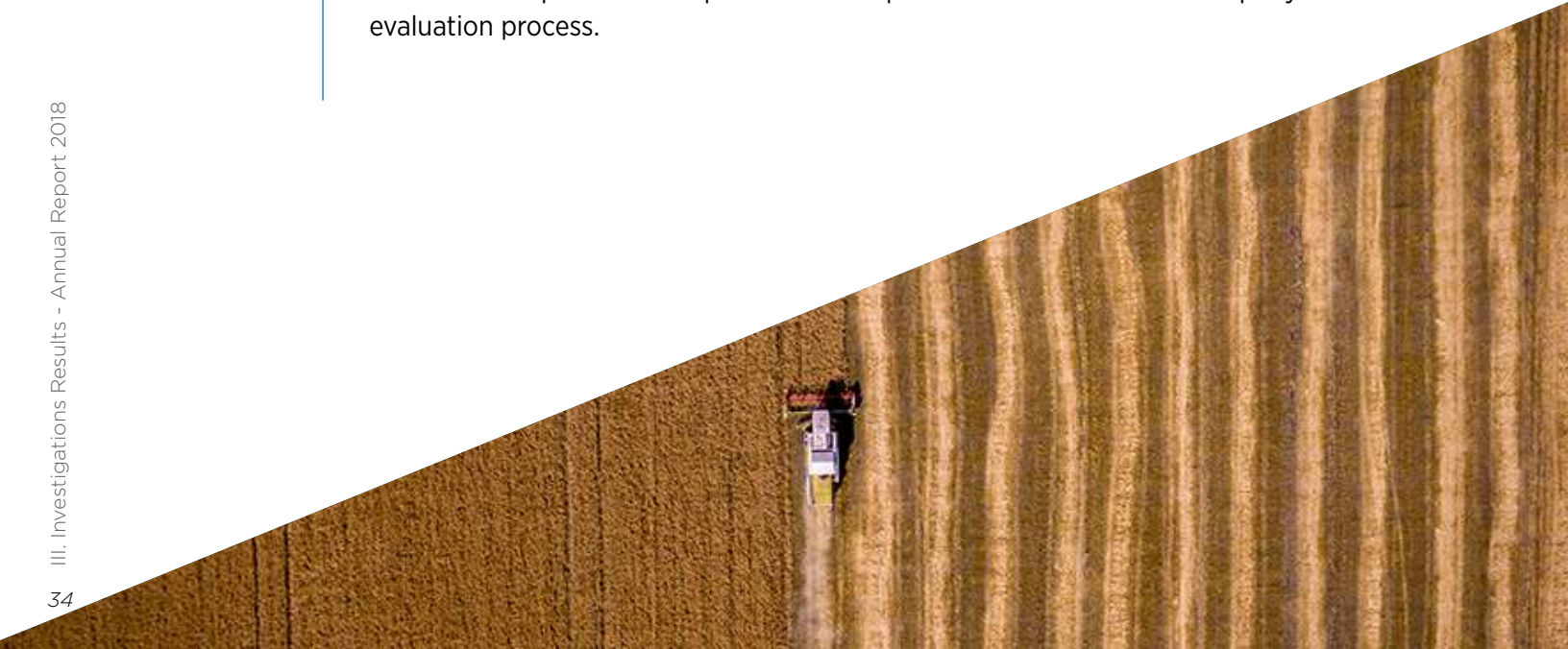
On August 21, 2018, the IDB publicly announced its first Negotiated Resolution Agreement (NRA) with a company under investigation for prohibited practices. As a result of the NRA, the Bank debarred the company for four years for corrupt, collusive, and fraudulent practices in several Bank-financed activities. The debarment could be extended to seven years if the company fails to comply with certain agreed conditions, including conducting an internal investigation, retaining an independent third-party consultant in order to analyze its compliance program, and addressing any existing deficiency.

Pursuant to the IDB Group's Sanctions Procedures and the applicable guidelines, NRAs may be entered into only when the investigated party agrees to cooperate with OII during an investigation and provide information regarding: (i) systemic prohibited practices or integrity risks to IDB Group-financed activities, or (ii) significant prohibited practices of the investigated party or other parties. Accordingly, NRAs give a full picture of integrity risks in IDB Group-financed activities. Through the testimony and cooperation of those involved, details regarding other companies and/or executing agency officials involved in the schemes may come to light. Such information provides operational teams with the clarity and information necessary to manage integrity risks in their programs and prevent similar acts from occurring in the future.

CASE STUDY 4

Collusion tied to the design of a concession uncovered with the assistance of national authorities

| | |
|--|---|
| Allegation: | As part of a Technical Cooperation, the Bank financed technical studies and procurement management supporting a State-funded concession process for public transportation services. Approximately one year after the award of contracts for the concessions, OII received an allegation that a company hired to draft the technical studies that formed the basis of the request for proposals and evaluation criteria (Company A), had an undisclosed conflict of interest with the transportation companies ultimately awarded the concessions. Shortly after the allegation was received, OII also learned of national investigations into Company A for alleged collusion with the transportation companies on this and similar projects. |
| Investigative Findings: | OII substantiated allegations that Company A committed a collusive practice during the design and evaluation phases of the project. Specifically, representatives of Company A had a conflict of interest through active business ties with the transportation companies. In addition, OII identified evidence that the technical studies were drafted in a manner that favored the transportation companies to the detriment of the State. Namely, Company A overstated ridership and mileage data, which allowed for inflated costs and profit margins for the eventual awardees of the concessions. |
| Assistance from National Authorities: | OII's ability to investigate this allegation was greatly enhanced through extensive outreach and engagement with national authorities. In particular, OII was able to access expert studies conducted by national authorities and other evidence specific to this project in addition to evidence of similar collusive schemes by the same actors on other non-Bank-financed projects. |
| Prevention Intervention: | The Bank did not finance the concessions and, therefore, was not in a position to take remedial actions with respect to the awards. However, lessons learned from the investigation were shared with the project team for consideration in similar projects. For example, OII flagged to the project team certain indicators that, while subtle, could have warranted further scrutiny, including the abrupt changes to some of the concession models and repeated attempts to involve specific consultants from Company A in the evaluation process. |



CASE STUDY 5

Corruption in the Supervision of the Design and Implementation of an IT System

| | |
|---------------------------------|--|
| Allegation: | Through a Non-Reimbursable Technical Cooperation, the Bank financed the design and implementation of an Information Technology system for the management of small water and sanitation cooperatives (the “IT System”). The Bank hired a company to carry out the consultancy (Company A), and an individual consultant (Individual B) to supervise Company A’s work. More than a year after the signature of the respective contract, Company A alleged that Individual B had extorted Company A to approve the completion of certain milestones. |
| Investigative Findings: | OII’s investigation found that Company A was not a victim of extortion, but in fact a willing party to a corrupt agreement in which Company A improperly benefited. Specifically, OII found that Company A bribed Individual B through payments concealed under a simulated consultancy contract. In exchange, Individual B did not supervise Company A correctly; tolerating substantial contractual breaches from Company A, omitting to disclose these breaches to the Bank, and falsely certifying the completion of certain milestones. Individual B’s improper supervision resulted in severe delays in the implementation of the IT System. |
| Prevention Intervention: | The Bank rescinded the contract with Company A for breach of contract and terminated activities with the consultant. Moreover, lessons learned from the investigation were shared with the project team and other operational units involved in IT-related activities. |



An aerial photograph of a landscape featuring a light-colored road or path that runs diagonally from the top left towards the bottom center. The surrounding terrain is covered in green vegetation with scattered trees and shrubs. A large, semi-transparent orange diagonal band covers the right half of the image, serving as a background for the text.

IV SANCTIONS OFFICER, SANCTIONS COMMITTEE AND ITS EXECUTIVE SECRETARIAT

IV. SANCTIONS OFFICER, SANCTIONS COMMITTEE AND ITS EXECUTIVE SECRETARIAT

4.1 The Sanctions System consists of the investigative phase conducted by OII and the two-tier adjudication phase, made up of the Sanctions Officer (SO) and the Sanctions Committee (SNC) (see Figure 14). The cornerstone of the Sanctions System is its independence and impartiality.

4.2 The SO is the first-tier decision maker and determines whether there is sufficient evidence to support allegations that the respondent engaged in prohibited practices as presented in OII's SOC. As part of this process, the SO reviews the evidence presented by OII, assesses the respondent's response and supporting evidence, and may request additional information from OII or the respondent. The SO issues a Determination and if a respondent is found to have engaged in a prohibited practice, imposes a sanction.

4.3 The SNC is the second and final-tier decision maker of the Sanctions System's adjudication phase. The SNC is assisted by an Executive Secretariat in processing appeals. The SNC adjudicates cases in which respondents have contested a Determination issued by the SO, but the SNC is not bound by the sanction imposed by the SO. The SNC reviews the submissions by OII and the respondents *de novo*, and can hold hearings. The SNC assesses whether the respondent engaged in a prohibited practice, in which case it imposes a sanction. SNC decisions are final and cannot be appealed.

Figure 14. The Sanctions Process



4.4 The Sanctions System is committed to providing respondents a robust process in the adjudication of their cases which includes where possible using, of the four official languages of the Bank, the language of the respondent in issuing Notices of Administrative Actions and other official communications; ensuring that service of notice is completed consistent with the Bank's Protocol for the Delivery of Notices; providing respondents an opportunity to present arguments and evidence in response to OII's allegations, prior to the SO or SNC determining whether a sanction is warranted; and if the respondent appeals, providing recourse to the Sanctions Committee which is comprised of members who are both internal and external to the IDB Group.

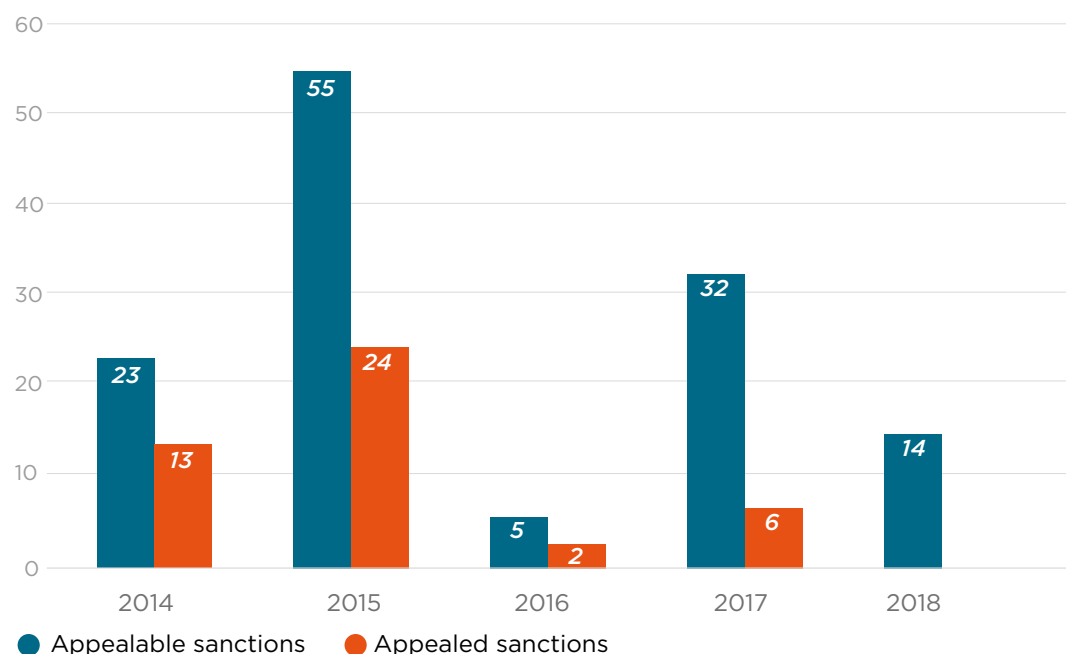
4.5 In recent years, the Sanctions Officer and Sanctions Committee have seen increasing complexity in the cases of collusion and corruption presented by OII, as well as a rise of outside counsel representing respondents throughout sanctions proceedings.

A. Sanctions Officer Outputs

4.6 Since the inception of the 2015 Sanctions Procedure, the Sanctions Officer has seen a decrease in the number of Determinations being appealed and an increase in the required analysis for each case.

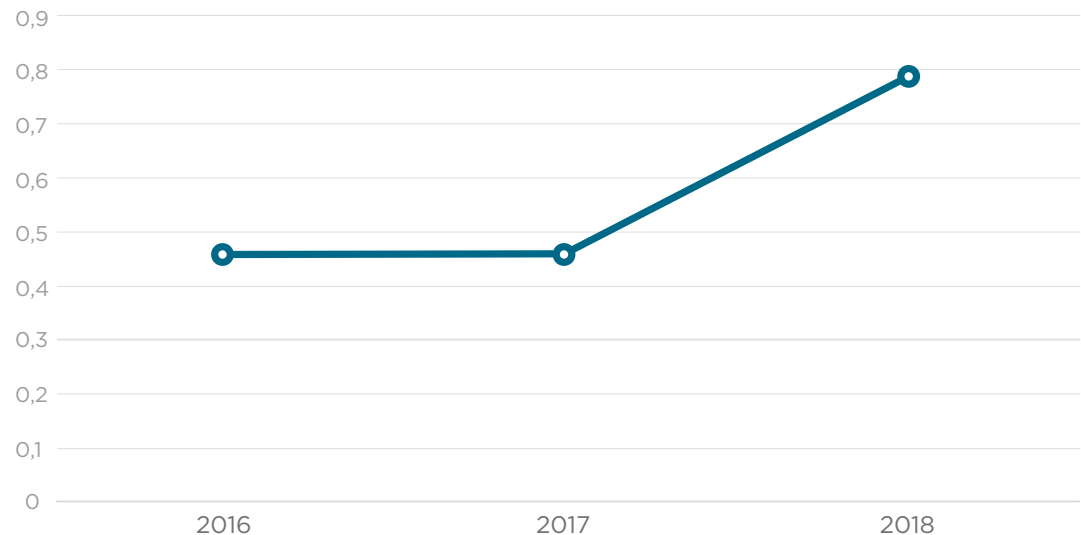
4.7 In relation to the number of appeals, the decrease is due in part to the change in the procedure itself. Prior to the 2015 procedure, the Sanctions Officer would recommend a sanction based solely on the information provided in OII's SOC, and the only means for a Respondent to counter the allegations presented by OII was to appeal the recommended sanction imposed by the Sanctions Officer. Since the change in procedure in 2015, the number of appeals has decreased, partly because now Respondents can contest the case as presented by OII in front of the Sanctions Officer. The determinations issued by the Sanctions Officer, whereby sanctions are now imposed rather than recommended, consider the submissions made by the Respondents during the process (Figure 15).

Figure 15. Appealed Sanctions 2014-2018



4.8 The increase in the complexity of cases and the role the Sanctions Officer plays in the process is reflected in the uptick of the ratio of records to file in relation to the number of respondents, as can be seen in Figure 16.

Figure 16. Records to File in Relation to Number of Respondents 2016-2018



4.9 Statements of Charges. During 2018, the SO received 10 submissions by OII: seven SOC's, two Requests for Temporary Suspension (RTS) and one Request for an NRA. Additionally, the SO reviewed 12 SOC's that were carried over from 2017.

4.10 Typically, each submission of OII involves multiple Respondents, which will generate individual sanctions proceedings ("cases"): one per Respondent. In total, there were 59 Respondents in the 10 submissions by OII in 2018, which related to SOC's, RTS and the Request for an NRA.

4.11 Notice of Administrative Actions (Notices). Upon review of the SOC's, the SO must determine whether the SOC warrants the initiation of administrative sanctions proceedings. If the SO determines that a Notice should be issued, the SO has the responsibility of notifying each Respondent to guarantee their right to participate in the sanctions proceedings and contest the charges.

4.12 Notification Process. The SO Notice informs the Respondents that Sanctions Proceedings have been initiated against them. The Respondent then has 60 calendar days to submit a Response to the SO's Notice. The Notices are issued following procedures that seek to ensure that all Respondents are notified, have an opportunity to submit a Response, and to establish an efficient and effective line of communication between the Office of the SO and the Respondents.

4.13 During 2018, the SO issued 61 Notices and notified a total of 50 Respondents (compared to 40 Notices issued to 34 notified Respondents in 2017). Additionally, in 2018, the SO published 11 Constructive Notices on the IDB Group's Sanctions webpage (compared to five Constructive Notices in 2017), which are issued when the Respondent cannot be reached through mail or courier.

4.14 Contested Cases and Responses Received. Under the Sanctions Procedures, Respondents may contest the SOC's by submitting Responses. In addition, upon an in-depth review of the SOC's and the Responses, the SO must determine whether additional information is required before issuing a Determination. During 2018, the SO received 28 Responses, of which 11 were reviewed with corresponding Determinations issued. Of these, the SO issued Determinations sanctioning seven Respondents, while the SO issued Determinations dismissing the allegations against four Respondents. The remaining 17 Responses are still under review by the SO.

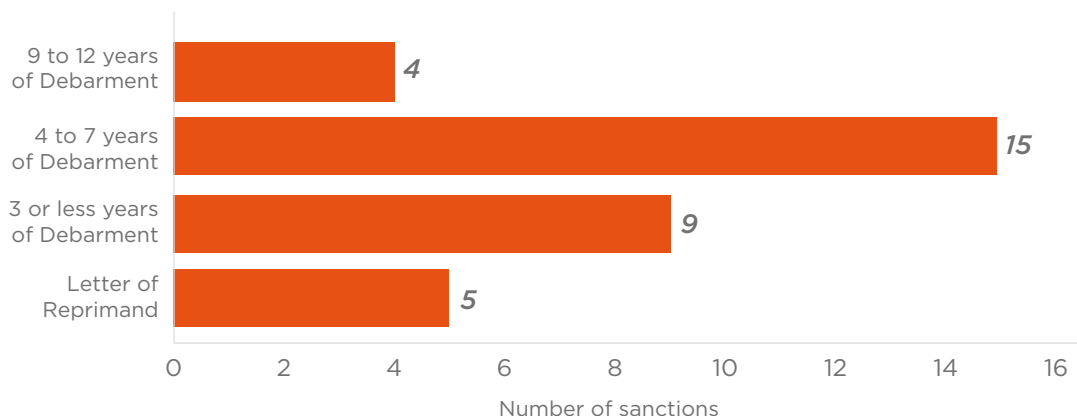
4.15 Records to File. Records to File allow the SO to decide filed motions, extend procedural deadlines and to account for documentation submitted, ensuring due process and equal access to information by all parties. In 2018, the SO issued 46 Records to File related to ongoing cases.

4.16 Determinations. During 2018, the SO issued 40 Determinations (compared to 50 in 2017). Thirty-three of these Determinations resulted in sanctions: 19 were final (uncontested proceedings) and 14 were appealable to the Sanctions Committee. None of the appealable Determinations issued in 2018 were contested, with eight sanctions becoming final in 2018 and the remaining six sanctions entering into force in 2019, following the expiry of the respective appeal periods.

4.17 The remaining seven Determinations did not impose sanctions: four dismissed the allegations against the Respondents, one was a partial dismissal (excluding certain Respondents from proceedings prior to issuance of a Notice), one granted a Temporary Suspension, and one was related to a Determination of Eligibility for an NRA.

4.18 Sanctions Imposed. The 33 sanctions imposed in 2018 involved the following prohibited practices: one collusion, corruption, and fraud; one collusion and corruption; six collusion and fraud; two corruption and fraud; three corruption; and 20 were for fraud. Of these sanctions, five were letters of reprimand and 27 were debarment periods ranging from 1 year to 12 years, as illustrated in Figure 17. In total 46 sanctions imposed by the SO (including 25 from 2017 that became effective in 2018) met the criteria of the Agreement on Mutual Enforcement of Debarment Decisions (Cross-Debarment Agreement) and were notified for cross-debarment by the MDBs.

Figure 17. Distribution of SO Sanctions for 2018 (imposed in Determinations issued in 2018)



Prime Bidder and Suppliers

The Sanctions Officer sanctioned several Respondents for fraudulent practices related to a bid submission in an IDB-financed project to support the infrastructure for the collection and disposal of municipal waste.

OII's investigation found that several of the proposed suppliers and sub-contractors had provided forged documentation related to their technical capacity, certifications, and experience, which were necessary to satisfy the technical requirements of the bidding documents. The suppliers subject to proceedings did not present a response to OII's Statement of Charges. Subsequently, the Sanctions Officer determined that it was more likely than not that the suppliers engaged in a fraudulent practice by knowingly misrepresenting the authenticity of the supporting materials submitted for the *prime bidder's* offer, and hence presented to the Executing Agency. The suppliers were debarred for periods that ranged from three to four years. Similarly, the Sanctions Officer also found that based on the evidence and arguments presented by OII and after reviewing the *prime bidder's* response, it was more likely than not that the *prime bidder* engaged in a fraudulent practice when it recklessly presented false information from two of its main suppliers. The *prime bidder* was issued a public reprimand.



4.19 Response Time. During 2018, it took the SO 307 days on average to issue Determinations, an increase of five days in comparison to 2017. As was the case in 2017, a significant number of cases required enhanced scrutiny, due to the more complex nature and the number of respondents.

B. Outputs of the Sanctions Committee and its Executive Secretariat

4.20 Key Milestone. In 2018, a milestone was reached when a Respondent successfully completed conditions of a debarment with a conditional release imposed by the Sanctions Committee. The Sanctions Committee found that the Respondents met the requirements of the conditions stated in the decision and therefore the debarment could be terminated. This represented the first completed use of a conditional debarment by the Committee, reflecting a sanction structure focused on compliance and reform.

4.21 SNC Executive Secretariat's Outputs. During 2018, the Executive Secretary processed nine appeals from Respondents on cases related to fraud and collusion. One of those appeals was filed in 2017, while the remaining eight were presented in 2018.

4.22 Furthermore, the Executive Secretariat drafted 132 communications (i.e., related to debarments, cross-debarments, decisions associated with conditions) and referred them to OII, Respondents, Country Representatives and Executive Directors.

4.23 Sanctions Committee. In 2018, the SNC issued nine Decisions stemming from the nine appeals, imposing sanctions in all of them as indicated in Figure 18. The nature of the sanctions and years of debarment imposed are summarized in Figure 19 below.

Figure 18. SNC Decisions 2016-2018

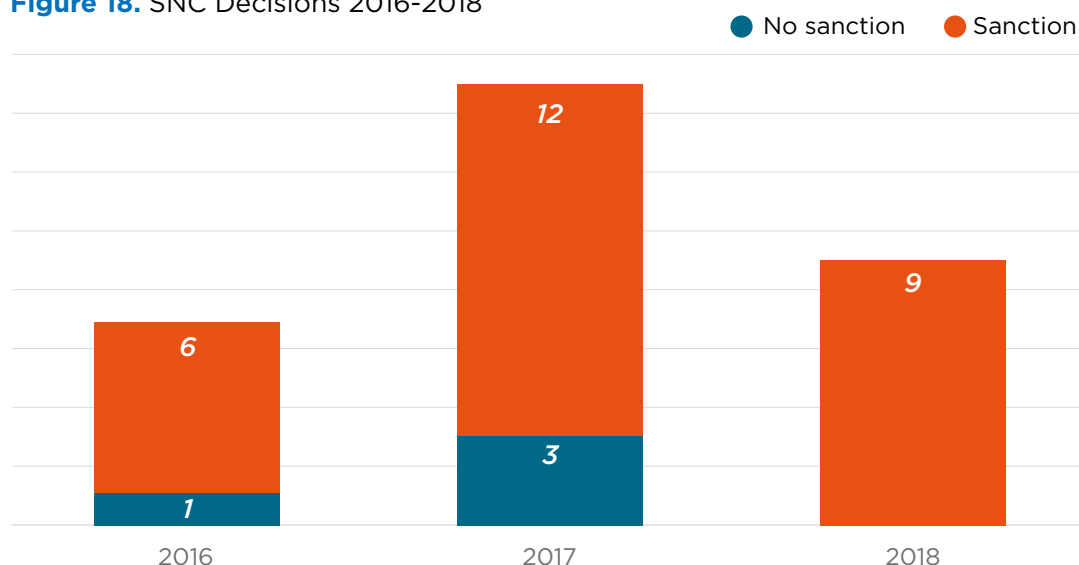
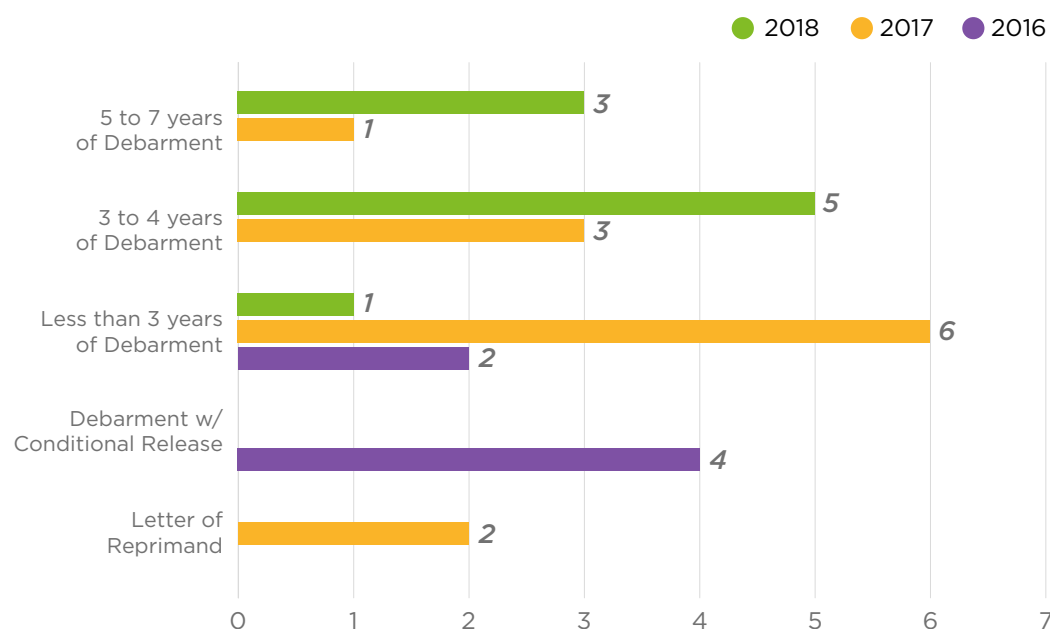


Figure 19. Distribution of SNC Sanctions 2016-2018



4.24 Cross-Debarment Agreement. Eight out of the nine debarments issued by the SNC met the requirements for cross-debarment and were communicated to the respective MDBs.

4.25 List of Sanctioned Firms and Individuals. As the administrator of the list of Sanctioned Firms and Individuals, the Executive Secretariat published the 28 debarments (19 issued by the SO and nine issued by the SNC) imposed by the IDB Group Sanctions System and the 279 debarments that were imposed by other MDBs (253 from the WBG, 19 from the ADB, five from the AfDB and two from the EBRD) and recognized by the IDB Group under the Cross-Debarment Agreement (see Appendix II for a detailed list of the entities and individuals sanctioned in 2018).

Conflicts of Interest

The Sanctions Committee sanctioned several respondents for fraudulent practices related to the execution of an IDB-financed project, which consisted of a program focused on increasing the household income in rural areas under poverty and extreme poverty conditions.

OII's investigation found that the respondents engaged in a fraudulent practice when concealing several conflicts of interest generated from family and professional relations existent between them, which were used to maintain their consultancy agreements, obtain the award of several contracts, and thus obtain an improper benefit through their execution.

The Sanctions Committee determined that it was more likely than not that the respondents engaged in a fraudulent practice by omitting disclosure of the conflicts of interest in order to mislead the Executing Agency regarding their family and professional relations and hence, maintain their consultancy agreements and increase the possibility of one of the respondents executing the contracts from which they were obtaining an indirect benefit.



C. Key Takeaways and Challenges

4.26 At present and going forward, the challenge for the Sanctions System is to ensure efficiency in issuing Determinations and Decisions for increasingly complex cases, while promoting a robust adjudicative process for Respondents at both the first and second tier of the Sanctions System. As the number of Respondents represented by outside counsel increases, the Sanctions System must continually evolve to address in a timely manner the increased volume of documentation and motions submitted.

4.27 Importantly and consistent with other MDBs, IDB Management approved the Sanctions System's proposal to publish future case synopses of the Sanctions Officer's Determinations, and the Sanctions Committee's Decisions. This milestone will further promote better accountability and transparency, as well as educating the public on what constitutes sanctionable misconduct.

4.28 Nevertheless, the publication of case synopses with key findings, along with the increase in casework documentation and interactions with respondents will inevitably increase the workload of the Sanctions System and as such, the offices of the SO and SNC must innovate to adapt to these changes and ensure a stable staff complement.

4.29 Finally, the SO and SNC understand the value of outreach and educating stakeholders on the mission and processes of the Sanctions System. One such initiative going forward to substantively engage in outreach is collaborating on educational initiatives with member government organizations, bar associations, and the legal profession in general, which will increase the overall awareness of the sanctions proceedings of the IDB Group and educate practitioners.



APPENDIX I

Prohibited Practices

Fraudulent Practice: 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.

Corrupt Practice: The offering, giving, receiving, or soliciting, directly or indirectly of anything of value to influence improperly the actions of another party.

Coercive Practice: Impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party.

Collusive Practice: An arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

Obstructive Practice: (i) Deliberately destroying, falsifying, altering or concealing evidence material to the investigation or making false statements to investigators in order to materially impede an IDB 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 (ii) acts intended to materially impede the exercise of the Bank's inspection and audit rights.⁷

⁷ The first four definitions are harmonized with the MDBs that are part of the Agreement on Mutual Enforcement of Debarment Decisions. Work is ongoing to harmonize the "Obstructive Practice" definition.

APPENDIX II

Entities and Individuals Sanctioned in 2018*

| Name | Entity Type | Nationality | Country Project | Ineligibility From | Ineligibility To | Grounds |
|---|-------------|-------------|-----------------|--------------------|------------------|---|
| Fabiola Pozo Dorado | Individual | Bolivia | Bolivia | Jan/22/2018 | Jan/21/2021 | Fraudulent Practices |
| SERPRO | Firm | Guatemala | Guatemala | Jan/29/2018 | Jan/28/2025 | Collusive and Fraudulent Practices |
| SURTI TIENDAS PRISMA | Firm | Guatemala | Guatemala | Jan/29/2018 | Jan/28/2025 | Collusive and Fraudulent Practices |
| CORSEP | Firm | Guatemala | Guatemala | Jan/29/2018 | Jan/28/2025 | Collusive and Fraudulent Practices |
| Henry Efraín Orellana López | Individual | Guatemala | Guatemala | Jan/26/2018 | Jan/25/2025 | Collusive and Fraudulent Practices |
| A&J y Asociados S.A. | Firm | Panama | Panama | Feb/21/2018 | Feb/20/2022 | Fraudulent Practices |
| Abdiel Enrique Arosemena Benítez | Individual | Panama | Panama | Feb/21/2018 | Feb/20/2022 | Fraudulent Practices |
| Abdiel Enrique Arosemena Orozco | Individual | Panama | Panama | Feb/21/2018 | Feb/20/2022 | Fraudulent Practices |
| María Narcisa Orozco de Arosemena | Individual | Panama | Panama | Feb/21/2018 | Feb/20/2022 | Fraudulent Practices |
| Constructora Arosemena y Asociados S.A. | Firm | Panama | Panama | Feb/21/2018 | Feb/20/2022 | Fraudulent Practices |
| Inversiones Solabed S.A. | Firm | Panama | Panama | Feb/21/2018 | Feb/20/2022 | Fraudulent Practices |
| Erkaengine Cía. Ltda. | Firm | Ecuador | Bolivia | Feb/21/2018 | Feb/20/2022 | Fraudulent Practices |
| Erick Fabricio Rosero Pozo | Individual | Ecuador | Bolivia | Feb/21/2018 | Feb/20/2022 | Fraudulent Practices |
| Consultora Memorias y Cómputos S.A. | Firm | Paraguay | Paraguay | Apr/2/2018 | Apr/1/2019 | Fraudulent Practices |
| Julio Enrique Reyna Arreaga | Individual | Guatemala | Guatemala | Apr/27/2018 | Apr/26/2030 | Fraudulent, Collusive and Corrupt Practices |
| Emigdio Osvaldo Pérez Juárez | Individual | Guatemala | Guatemala | Apr/30/2018 | Apr/29/2025 | Fraudulent and Collusive Practices |
| Constructora Ecop | Firm | Guatemala | Guatemala | Apr/30/2018 | Apr/29/2025 | Fraudulent and Collusive Practices |
| Wiliam Leonel Cano Hernández | Individual | Guatemala | Guatemala | Apr/30/2018 | Apr/29/2025 | Fraudulent and Collusive Practices |
| Constructora Fedpar Formuproyectos | Firm | Guatemala | Guatemala | Apr/30/2018 | Apr/29/2025 | Fraudulent and Collusive Practices |
| CEEC Trucks Industry CO. LTD | Firm | China | Peru | June/21/2018 | June/20/2022 | Fraudulent Practices |
| Steven Lee | Individual | China | Peru | June/21/2018 | June/20/2021 | Fraudulent Practices |
| Jorge Heriberto Estrada | Individual | Guatemala | Guatemala | June/25/2018 | June/24/2022 | Collusive Practices |
| Constructora del Mar | Firm | Guatemala | Guatemala | June/25/2018 | June/24/2022 | Collusive Practices |
| Matrix | Firm | Guatemala | Guatemala | June/25/2018 | June/24/2021 | Collusive Practices |
| Rodolfo Álvarez Mejía | Individual | Honduras | Honduras | June/27/2018 | June/26/2024 | Fraudulent Practices |
| Ángela Margarita Moreno Mejía | Individual | Honduras | Honduras | June/27/2018 | June/26/2021 | Fraudulent Practices |

| Name | Entity Type | Nationality | Country Project | Ineligibility From | Ineligibility To | Grounds |
|--|-------------|---------------|-----------------|--------------------|------------------|---|
| Asociación de Participación Ciudadana y Desarrollo Etnocomunitario ("ASPACIDEC") | Firm | Honduras | Honduras | June/27/2018 | June/26/2023 | Fraudulent Practices |
| Katya Yadira Martínez Manzanares | Individual | Honduras | Honduras | June/27/2018 | June/26/2023 | Fraudulent Practices |
| Irma Yadira Argueta Bourdett | Individual | Honduras | Honduras | June/27/2018 | June/26/2021 | Fraudulent Practices |
| Elmer Ariel Rodríguez Mérida | Individual | Guatemala | Guatemala | June/26/2018 | June/25/2023 | Fraudulent and Collusive Practices |
| Perfil Inmobiliario S.A. | Firm | Guatemala | Guatemala | June/26/2018 | June/25/2023 | Fraudulent and Collusive Practices |
| Marco Vinicio Arreaga Estrada | Individual | Guatemala | Guatemala | June/26/2018 | June/25/2027 | Collusive and Corrupt Practices |
| Johs. Gram-Hanssen A/S** | Firm | Denmark | Peru | July/2/2018 | Jan/2/2019 | Fraudulent Practice |
| OXARO S.A.C. | Firm | Peru | Peru | July/20/2018 | July/19/2021 | Fraudulent Practice |
| Alejandro Martín Quiñe Domínguez | Individual | Peru | Peru | July/20/2018 | July/19/2021 | Fraudulent Practice |
| GL SYSTEMS LLC | Firm | United States | Barbados | Aug/20/2018 | Aug/19/2022 | Corrupt, Collusive and Fraudulent Practices |
| Neo Soft S.R.L. | Firm | Bolivia | Bolivia | Oct/31/2018 | Oct/30/2022 | Corrupt Practices |
| Enzo Amilcar Aranibar Rojas | Individual | Bolivia | Bolivia | Oct/31/2018 | Oct/30/2022 | Corrupt Practices |
| Samuel Fernando Rojas Zambrana | Individual | Bolivia | Bolivia | Oct/31/2018 | Oct/30/2022 | Corrupt Practices |
| Leonardo Iván Noblecilla Sotomayor | Individual | Ecuador | Ecuador | Oct/31/2018 | Oct/30/2030 | Fraudulent and Corrupt Practices |
| Nobsa Construcciones S.A. | Firm | Ecuador | Ecuador | Oct/31/2018 | Oct/30/2030 | Fraudulent and Corrupt Practices |
| Jaime Anibal Fong Argeñal** | Individual | Nicaragua | Nicaragua | Dec/13/2018 | Dec/12/2019 | Fraudulent Practice |

* This table illustrates the sanctions which became effective in 2018.

** Respondent's sanction was a Letter of Reprimand, which does not result in ineligibility. Nonetheless, the Respondent's name is published on the IDB Group's Sanctions webpage for the period indicated.

| | |
|---|-----------|
| Sanctions imposed by Sanctions Officer | 32 |
| Sanctions imposed by Sanctions Committee | 9 |
| Negotiated Resolution Agreement (NRA) | 1 |

APPENDIX III

Cooperation Agreements and Uniform Framework for Preventing and Combating Fraud and Corruption

Cooperation Agreements signed to date between OII and national authorities as well as international organizations:

- Caribbean Development Bank.
- Brazilian Federal Prosecution Service.
- Nordic Development Fund.
- United Nations Development Program (UNDP).
- Comisión Nacional de Mercados y Competencia (CNMC, Spain).
- Conselho Administrativo de Defesa Econômica (CADE, Brazil).
- Comisión Federal de Competencia Económica (COFECE, Mexico).
- European Anti-Fraud Office (OLAF).
- **The Global Fund Office of Inspector General (new in 2018).**
- **General Prosecutor's Office (Spain) (new in 2018).**

Cooperation established through the Uniform Framework for Preventing and Combating Fraud and Corruption:

- African Development Bank.
- Asian Development Bank.
- European Bank for Reconstruction and Development.
- European Investment Bank.
- World Bank Group.



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