



OFFICE OF INSTITUTIONAL INTEGRITY AND SANCTIONS SYSTEM

ANNUAL
REPORT
2020



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ACRONYMS

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
FMP	Financial Management and Procurement Services
GIR	Global Investigations Review
IDB	Inter-American Development Bank
IDD	Integrity Due Diligence
IFI	International Financial Institution
IIC	Inter-American Investment Corporation (“IDB Invest”)
IT	Information Technology
ITE	Information Technology Department
LAC	Latin America and the Caribbean
MDB	Multilateral Development Bank
NRA	Negotiated Resolution Agreement
NSG	Non-Sovereign Guaranteed
OII	Office of Institutional Integrity
ORP	Office of Outreach and Partnerships
PCR	Project Completion Report
RMG	Office of Risk Management
SG	Sovereign Guaranteed
SLA	Service Level Agreement
SNC	Sanctions Committee
SO	Sanctions Officer
SOC	Statement(s) of Charges and Evidence
SPH	Social Protection and Health Division
WBG	World Bank Group

Preface by Laura Profeta Chief, Office of Institutional Integrity

Flattening the Curve of Corruption

This past year, the COVID-19 pandemic presented a myriad of unexpected challenges to our region, including unprecedented stresses to economic and healthcare systems. In response, the IDB Group has significantly increased and repositioned its lending to assist member countries and the private sector in priority areas intended to address the urgent needs caused by this worldwide emergency. As the IDB Group continues to take measures to maximize the availability of resources to support recovery efforts, it is more important than ever to uphold our commitment to transparency, ensure that project resources are used for their intended purposes, and mitigate integrity and reputational risks.

During crises, the risk of fraud and corruption increases, as lending, procurement processes, and financial transactions are expedited to make resources more readily available in a timely manner. This, in turn, can increase the risk of inadequate oversight, abuse of discretionary decision-making, and cost overruns, further reducing the impact of relief operations.

To support the IDB Group's response to this crisis, the Office of Institutional Integrity (OII) prioritized its integrity risk prevention and advisory services to support the IDB Group's operational departments' planning and execution of a high volume of new or redesigned operations intended to address the COVID-19 pandemic response. At the same time, OII and the Sanctions System ensured that our investigations and casework continued in full force, in order to send a strong message about the consequences of misconduct. We were honored to receive an award in 2020 in recognition of our investigations and enforcement results.

Throughout the year, OII continued to apply a 360-degree approach to integrity, as well as emphasize the importance of proactive risk prevention, lessons learned, and capacity building. We coordinated closely with counterpart MDB integrity and compliance offices to exchange information and approaches to the COVID-19 pandemic-related risks and current best practices, and continued to leverage cooperation with national authorities. In OII's prevention and investigations functions, as well as the case dispositions of the Sanctions System, our practices were adjusted to minimize disruption from remote work and travel restrictions.

President Mauricio Claver-Carone and his administration have made transparency a high priority for the institution and have expressed their commitment to the strict application of integrity safeguards, as well as to risk prevention in our projects. Collectively, as we continue to face the challenges of the COVID-19 pandemic and begin the process of recovery, OII and the Sanctions System remain committed to applying the highest professional standards in promoting transparency and accountability in the IDB Group's operations.



I. Introduction



I. Introduction

A. Our Performance in 2020 at a Glance

ADVICE TO SOVEREIGN GUARANTEED OPERATIONS



- » + **25%** consultations
- » **7** Reports of Investigations
- » **2** Integrity Risk Reviews of **3** Programs
- » Knowledge Sharing:
 - **20** trainings in **26** countries and HQ
 - **12** integrity bulletins

INTEGRITY DUE DILIGENCE SUPPORT



- » + **39%** consultations from IDB Invest
- » + **82%** consultations from IDB Lab
- » - **64%** consultations from ORP

INVESTIGATIONS



- » **116** active complaints, **92** processed
- » **48** preliminary investigations, **19** completed
- » **31** full investigations, **14** completed
- » **85%** of all investigations are high impact

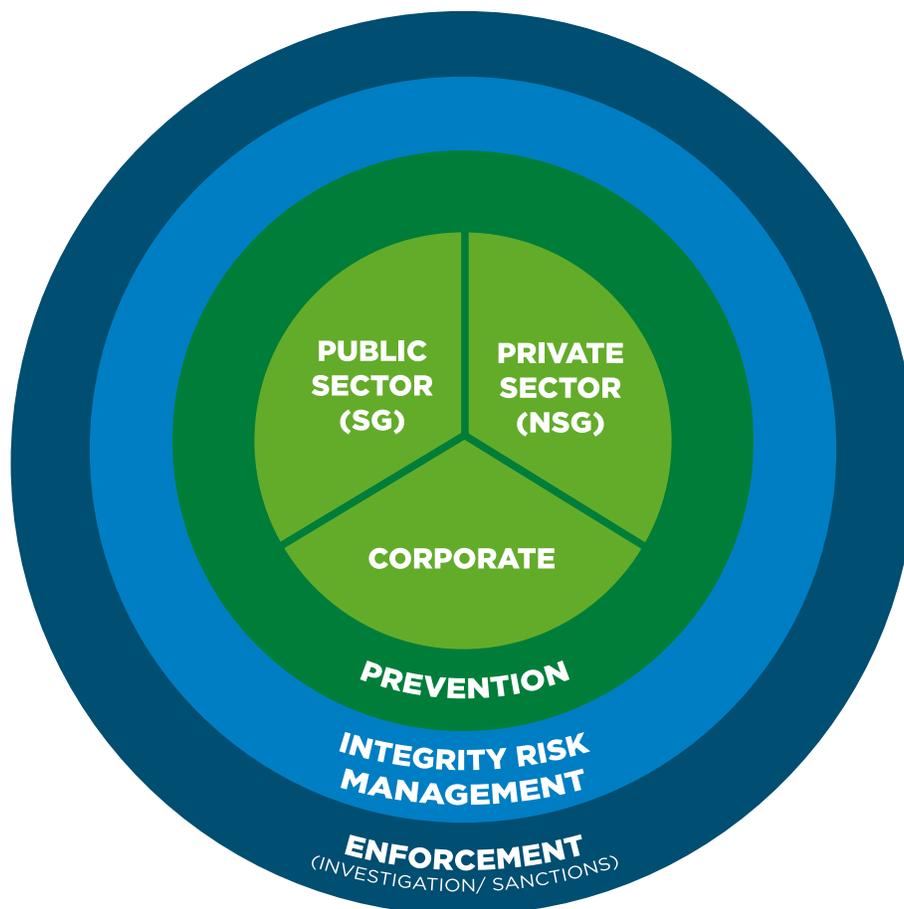
SANCTIONS



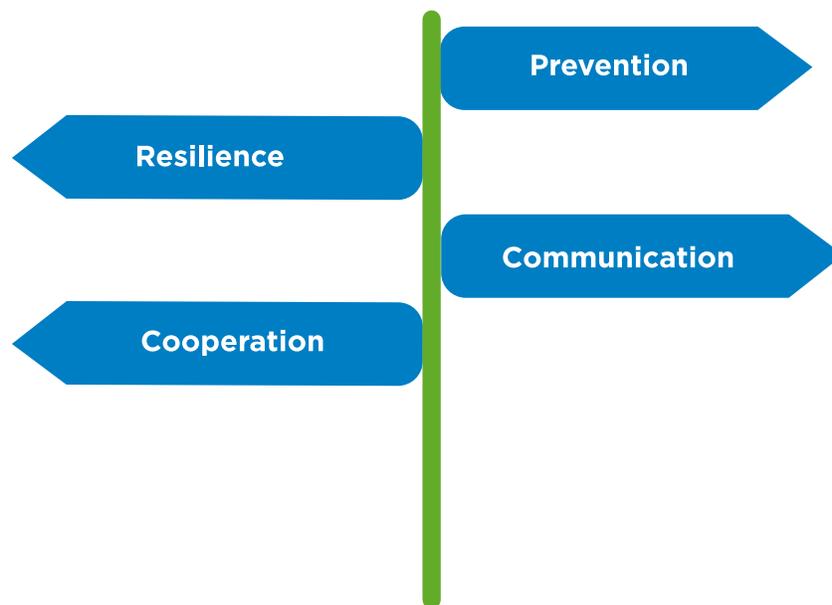
- » **60** Determinations by the Sanctions Officer
- » **17** decisions by the Sanctions Committee
- » **47** effective debarment decisions
- » **169** debarments imposed by MDBs recognized (cross-debarred)

B. Highlights in 2020

1.1 The 360-Degree Integrity Approach. In a health emergency context that increased risks and presented many challenges in 2020, the Office of Institutional Integrity (OII) and the Sanctions System continued to deepen their implementation of a coordinated 360-degree approach to protect IDB Group-financed activities. This approach safeguards Sovereign Guaranteed (SG) and Non-Sovereign Guaranteed (NSG) operations, as well as corporate projects and services, throughout the complete transaction cycle by developing and strengthening actions that prevent and mitigate integrity risks and by taking appropriate enforcement actions in cases of the occurrence of prohibited practices.



1.2 In addition to intensifying prevention efforts, OII and the Sanctions System adapted work practices to the unique circumstances caused by the COVID-19 pandemic, and leveraged communication and cooperation to maintain strong results.



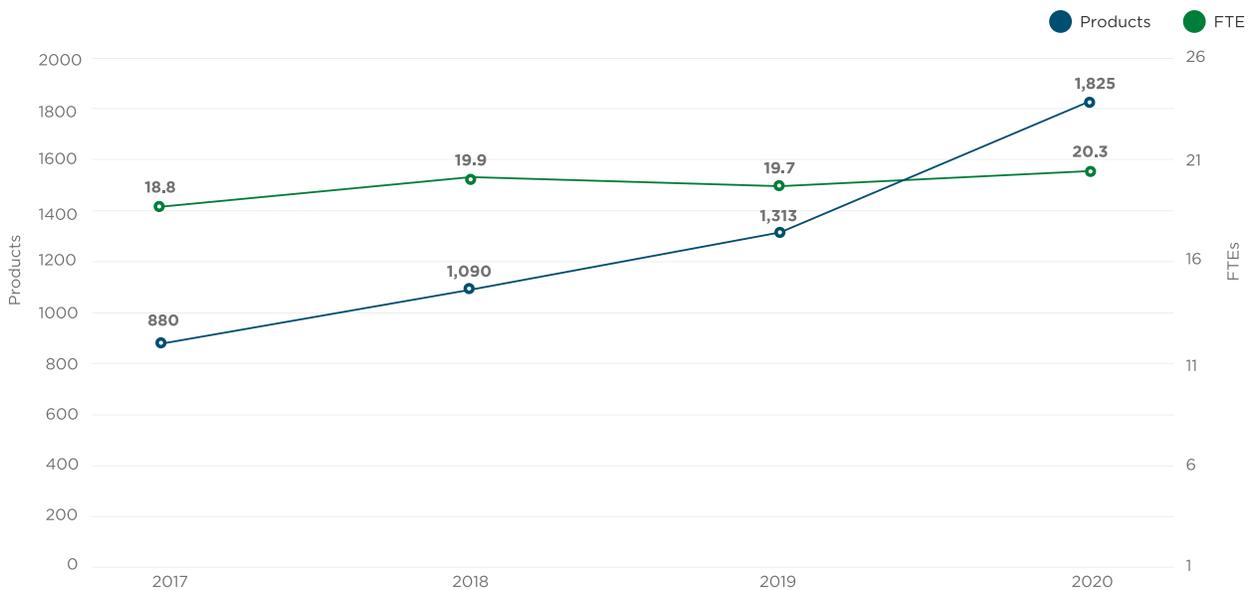
1.3 The following are some important highlights and trends of the work by OII and the Sanctions System in 2020:

- Global Investigations Review (GIR) awarded the 2020 “Emerging Enforcer of the Year” award to the IDB Group for its anti-corruption activities managed by OII and the Sanctions System. The IDB Group was the only international institution nominated for such an award. GIR’s nomination highlighted notable enforcement actions during the year preceding the award, including two settlement agreements negotiated by OII with large engineering and construction companies in the region to resolve and sanction corrupt practices in cases involving IDB-financed projects.
- In 2020, OII prioritized providing advice to IDB Group operational staff to prevent and mitigate the heightened integrity risks associated with the COVID-19 pandemic and its economic and financial consequences, while at the same time handling a significant increase in operational volume. In this regard, OII also intensified cooperation and harmonization efforts with its counterparts to ensure that the tools and approaches to managing these risks are consistent among Multilateral Development Banks (MDBs), maximizing the exchange of information, and taking stock of best practices.
- OII completed risk assessments and control recommendations required by the IDB’s Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Framework in all Headquarters business units, an important step towards achieving full implementation of the Framework.

- In 2020, the Sanctions Officer (SO) issued a record number of Determinations on Statements of Charges and Evidence (SOC), as well as Determinations for Eligibility for negotiated resolution agreements. During this period, the role of the SO in monitoring integrity compliance programs increased substantially. Notably, the SO worked with national enforcement authorities, as well as the World Bank Group, on multi-jurisdictional monitorships of sanctioned firms.
- In 2020, the Sanctions Committee (SNC) also issued a record number of decisions and switched to 100% online sessions effectively. During this period, the Committee membership had a significant renewal with the nomination of new external and internal members as former members reached their maximum service period.
- OII and the Sanctions System relaunched their website in 2020, to make it more accessible to all stakeholders and consolidate it as a practical tool to report complaints and to flag early warning signs. The renovated platform is organized in a way that facilitates finding key documents, information about our offices, sanctioned entities, and the procedure to submit an allegation.

1.4 Use of Resources/Efficiency. During the COVID-19 pandemic, when efficiency in the use of resources is more important than ever, OII continued to respond to the increased demand for its services with a minimal increase in its labor force (see Figure 1).¹ In 2020, OII fully utilized its budgeted resources, continued to provide support to both the IDB and IDB Invest, and signed a Service Level Agreement with IDB Lab for the first time.

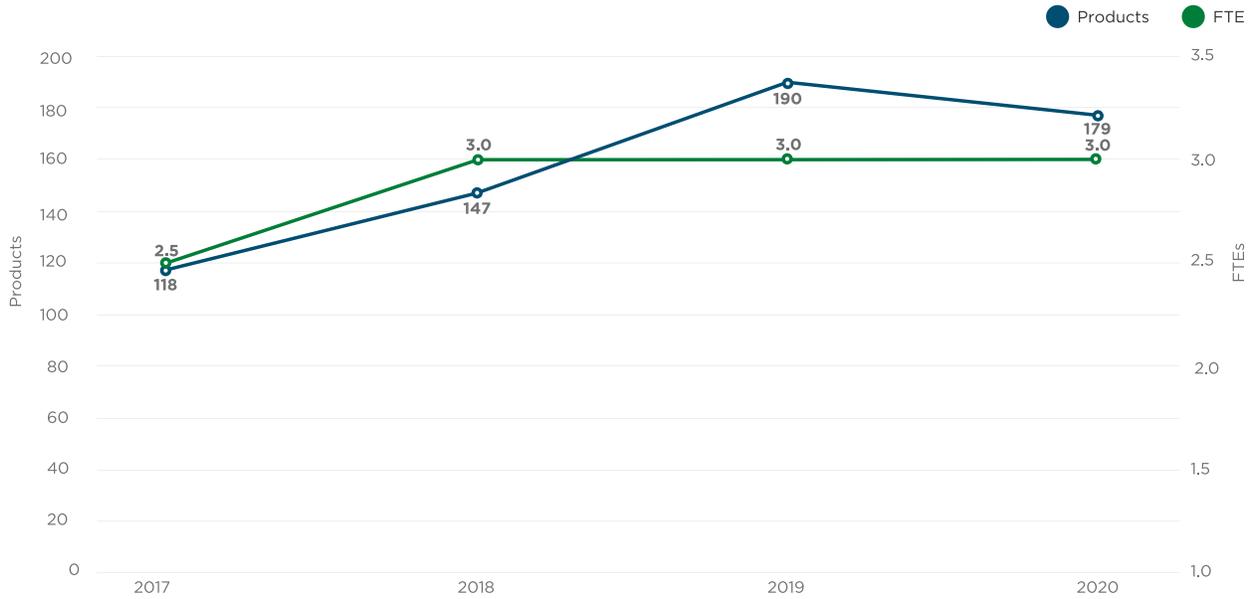
Figure 1. OII’s Efficiency: Products/Year vs. FTEs (2017-2020)



¹ OII’s products are defined as: for Prevention, the number of SG and NSG consultations, risk analyses, and trainings to internal and external parties; and for Investigations, completed or closed cases, closed matters, and submissions to the SO. Workforce is measured by the Full-Time Equivalent (FTE) of personnel (staff or consultants) devoted specifically to these products.

1.5 Figure 2² shows that the Office of the SO increased its output from 2017 to 2019, with a slight decrease in 2020. This figure considers the technical workforce during this period, which was maintained.

Figure 2. SO's Efficiency: Products/Year vs. FTEs (2017-2020)



² The SO's products, which are issued during a sanction proceeding, consist of the following: Notices, Records to File, Determinations, and documentation related to compliance oversight. The workforce is measured by the Full-Time Equivalent (FTE) of personnel (staff or consultants) devoted to these products.



II. Prevention Results

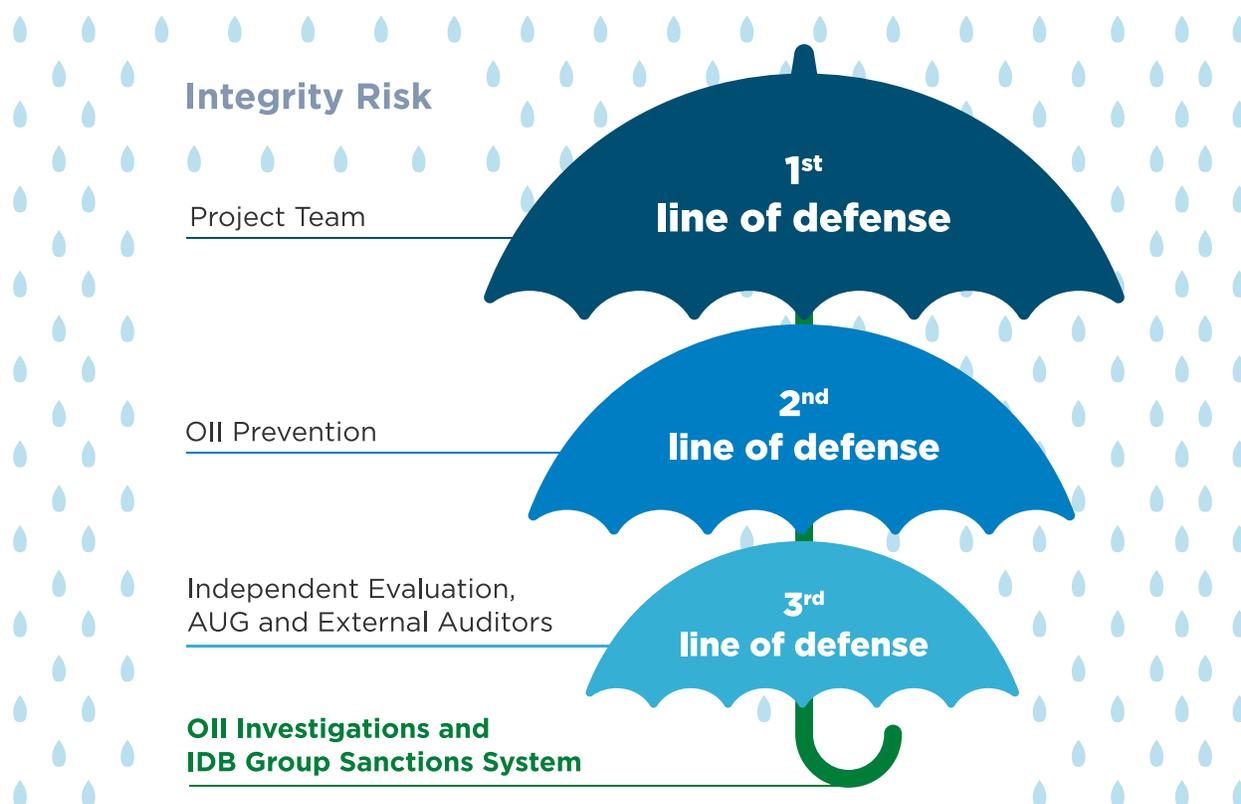


II. Prevention Results

- 2.1** Past emergencies such as natural disasters have shown that integrity risks have a tendency to increase during situations in which there is a need to act quickly and prioritize response over oversight. The COVID-19 pandemic has been unprecedented in many ways and has not been an exception in this respect. Unparalleled levels of funds have been mobilized worldwide to meet the needs of the health crisis and provide economic relief for citizens and businesses affected by the pandemic. At the same time, the urgency and amount of resources have created significant opportunities for corruption and other integrity violations.
- 2.2** As a result, in 2020 OII redoubled its efforts to advise the IDB Group's operational and corporate teams on integrity risk management, as well as on minimizing possible negative impacts on the IDB Group's reputation. In facing the record number and volume of operations financed by the IDB Group in 2020, OII recognized the need to act in a timely and efficient manner without diminishing the integrity standards applied to operations. OII also continued to focus on developing and promoting effective best practices and approaches to deter the occurrence of prohibited practices in IDB Group-financed activities, as well as to promote and strengthen integrity across the region in the public and private sectors.

A. Advice to Sovereign Guaranteed Operations

- 2.3** To manage integrity risks in SG operations, OII focuses on identifying and correcting 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. In 2020, OII continued to observe an increasing demand for its advice to prevent or mitigate integrity risks and their reputational impact on IDB-financed projects. Requests for advice increased not only in absolute numbers but also in complexity.

Figure 3. SGO Preventive Approach

2.4 Audit of Integrity Risk Management in SG Operations. In 2020 the IDB's Office of the Executive Auditor (AUG) issued a report on the management of integrity risk in SG operations. The report recognized that in recent years improvements have been made in the Bank's operational processes, policies, and regulations to manage integrity risks in SG operations and that these are working as intended. However, AUG also identified the following opportunities for improvement: (i) reinforcing integrity risk management in project execution; and (ii) increasing the dissemination of lessons learned on integrity risk.

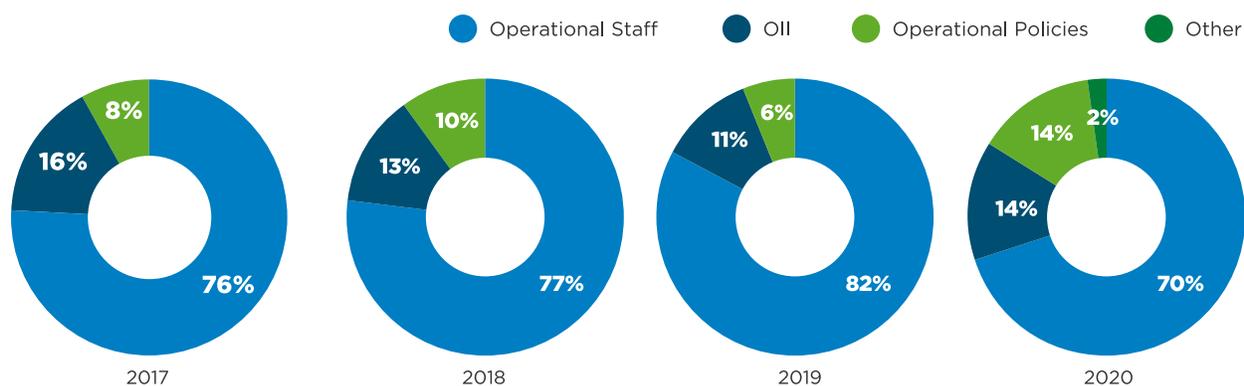
2.5 OII, together with other Bank units, worked to address AUG's recommendations and will continue to do so in 2021. In 2020 OII partnered with the Knowledge, Innovation, and Communications Sector (KIC) to use its Operational Learning Platform (OLP) for sharing lessons learned on integrity risk management and information about OII's advisory services with project teams. OII also partnered with the Office of the Vice President for Sectors and Knowledge (VPS) to remind project teams of the requirement to reflect lessons learned related to integrity in Project Completion Reports (PCRs). After this reminder was sent, OII received 20 consultations from project teams preparing PCRs, versus none received in 2019.

2.6 Consultations on SG Operations. On the prevention side, throughout 2020, OII responded to 230 consultations on integrity risk management, compared to 185 in 2019. This represents an increase of almost 25% in the number of consultations.

2.7 The types of consultations can be categorized as follows: i) guidance to project teams and Managers on how to best assess and mitigate integrity risk and reputational impact; ii) proactive identification of integrity risk indicators by OII that required mitigation or SG preventive inputs; and iii) ensuring compliance with the Bank's operational policies related to integrity.

2.8 Figure 4 shows the distribution of consultations by trigger. Even though it mimics the distribution of past years and illustrates recognition by IDB project teams of the importance of addressing integrity risks as part of the project's general risk management, the graph also demonstrates an increase in consultations to ensure compliance with the IDB's policies³ even though they remain low in absolute value. Consultations from project teams also include inquiries received from executing agencies who may initially contact teams seeking advice on integrity matters.

Figure 4. Consultations by Trigger (2017-2020)

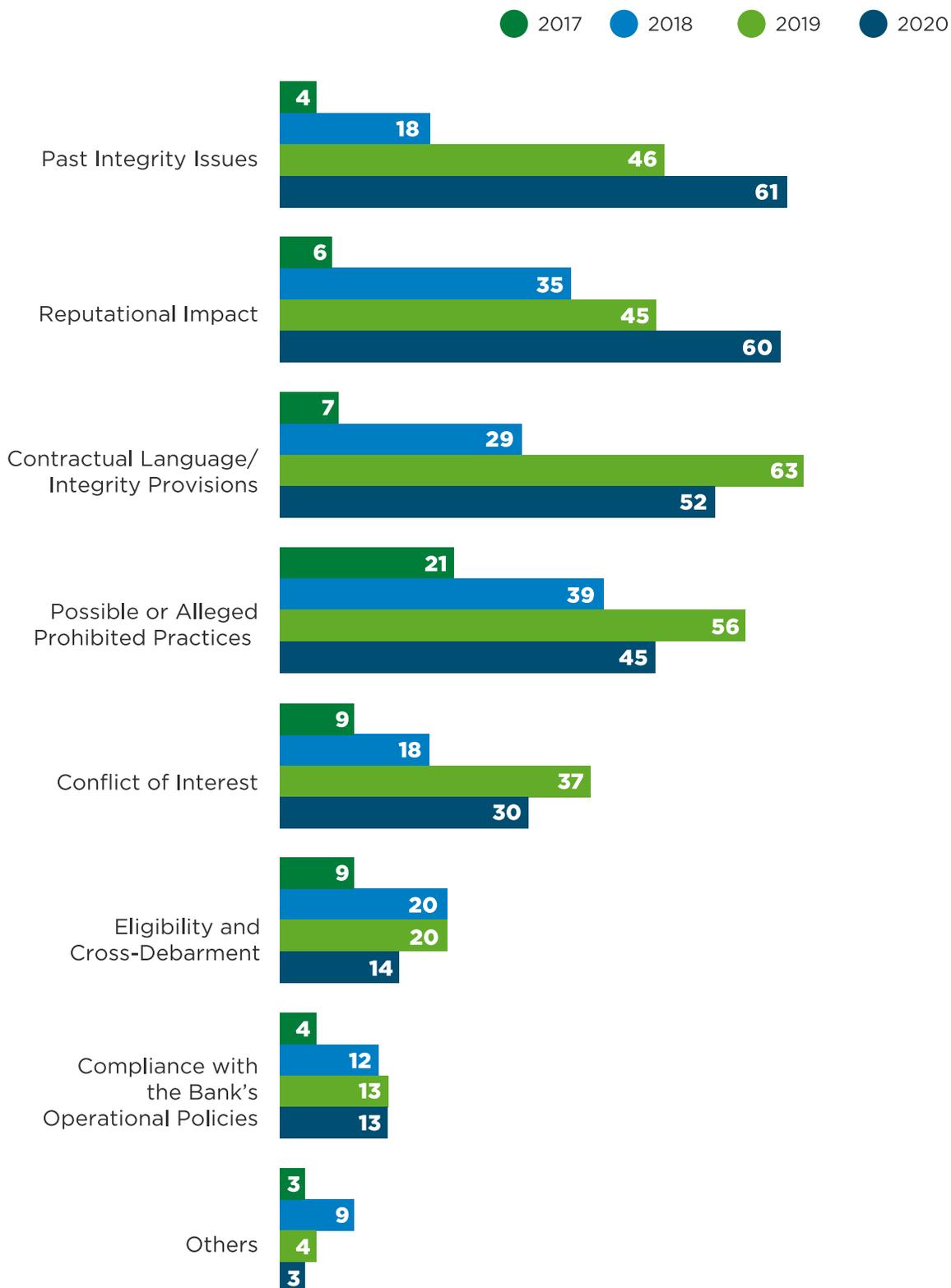


Note: Percentages might not add up to 100% because of rounding

2.9 OII was most frequently consulted on (i) the analysis of past integrity problems that could affect the implementation of activities financed by the Bank; (ii) the assessment of situations that could negatively impact the Bank's reputation or the programs it finances; and (iii) contractual language and integrity provisions to prevent and mitigate integrity risks (see Figure 5).

³ Guidelines to Process Loans Based on Results (GN-2869-3), Guidelines for Project Risk Management for Sovereign Guaranteed Operations (OP-1699-1), and the Project Completion Report Principles (OP-1696-6).

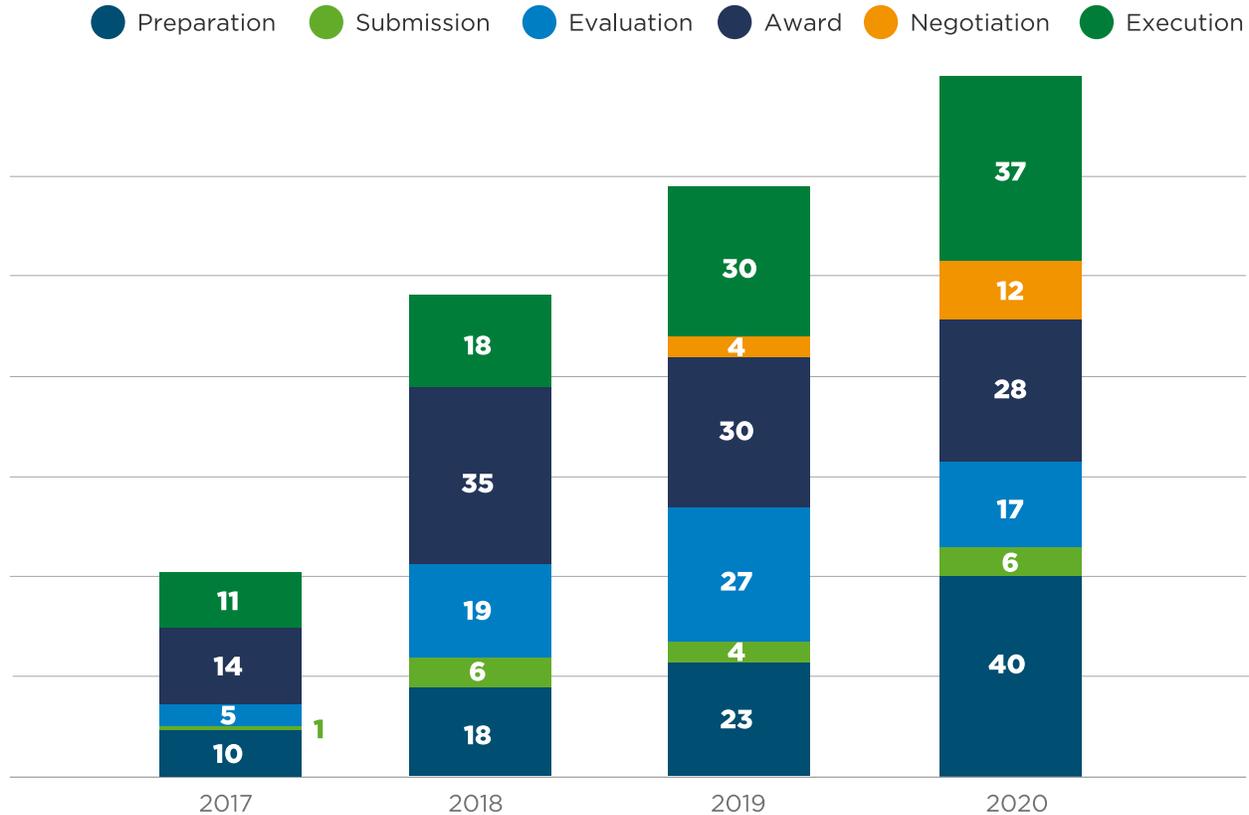
Figure 5. Issues Addressed in SG Consultations (2017-2020)



Note: Some consultations involved more than one issue, therefore the total number of issues is greater than the total number of consultations.

2.10 Of the 230 consultations handled by SG Prevention in 2020, 143 occurred during the implementation stage of the programs. These consultations called for advice regarding risk factors identified in procurement processes, and OII's responses required an analysis of red flags identified during the award and execution of contracts (see Figure 6).

Figure 6. Consultations Through the Procurement Cycle (2017-2020)



Note: Figure does not include consultations related to issues outside the procurement cycle, nor three specific consultations related to multiple phases.

2.11 Compared to 2019, there was an increase in the number of consultations that took place during the preparation of procurement processes, which related mostly to ensuring that the IDB integrity provisions are taken into consideration. Consultations related to the award, evaluation, and negotiation phases represented 40% of the consultations received in 2020. These were mostly related to the analysis of the integrity history of the participating entities that could affect the implementation of activities financed by the Bank, and the associated reputational impact.

2.12 Operations related specifically to the IDB's support to member countries to address the adverse effects of the COVID-19 pandemic became a priority in 2020 and represented about 22% of OII's SG integrity risk management advice. In this regard, OII's preventive function worked closely with operational staff, primarily from the Social Protection and Health (SPH) and Financial Management and Procurement Services (FMP) Divisions, to formulate measures to support the mitigation of integrity risks in the COVID-19 pandemic-related purchases and transactions.



CASE STUDY 1. Recommendations to Mitigate Integrity Risks in COVID-19 Related Procurements

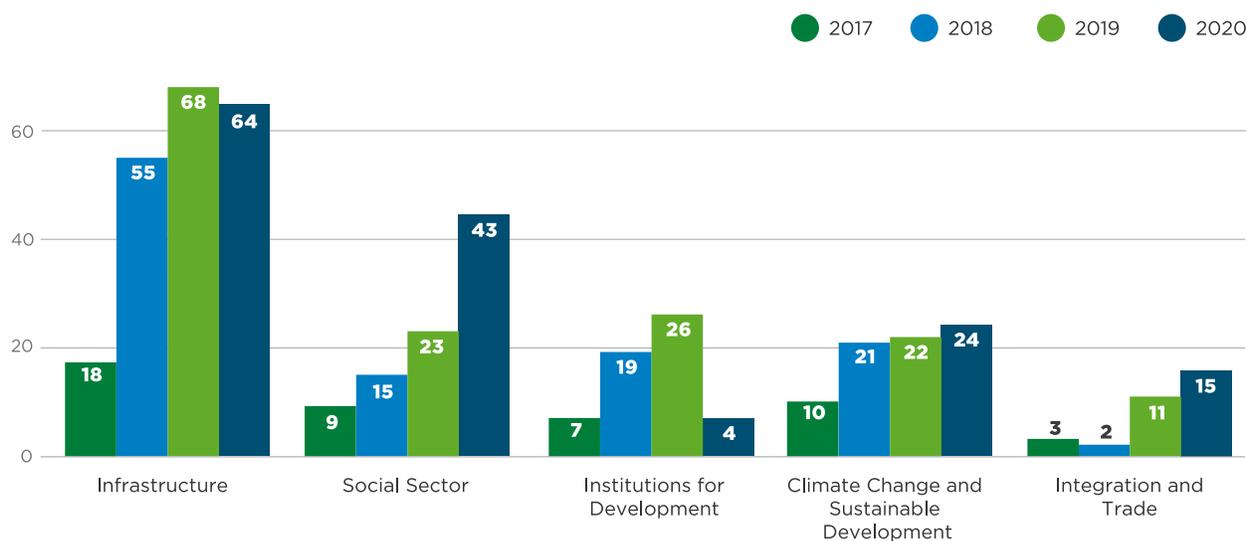
Even though time is of the essence during the response to an emergency, it is crucial to maintain an adequate integrity risk management strategy, since sidelining integrity for immediate action may be costly later. Corruption reduces the impact of relief operations, decreases available resources and the quality of products and services provided, and diverts aid from those who need it most.

With the influx of money and with decreased controls to rapidly face the emergency of the COVID-19 pandemic, integrity risk increases, and so does the potential harmful impact on the Bank's and programs' reputation. Based on an exhaustive analysis of an emergency procurement in the early stage of the COVID-19 pandemic, OII's preventive function provided recommendations to operational teams to strengthen the transparency and integrity of procurement processes to be conducted in similar circumstances when markets do not function normally. For example:

- ***Data is powerful;*** use it. Executing agencies should collect and analyze information on prices paid for the goods and services needed to respond to the most urgent needs.
- ***Consider relevant stakeholders' informed opinion as part of the planning process.*** Especially when deciding about new technologies or complex equipment to respond to an emergency, consult with users and subject experts to ensure that pre-identified goods and services correspond to the beneficiaries' needs.
- ***Open contracting opportunities.*** Advertising procurement opportunities can attract broader competition and help mitigate risks of discretionary decision-making and favoritism in pre-identifying providers. In addition, it increases accountability because civil society and other stakeholders can scrutinize and monitor the processes.
- ***Request disaggregated information on prices;*** it facilitates decision-making. Executing agencies should ask bidders to provide a breakdown of the price offered to improve comparability across quotes and to facilitate the analysis of the proposed price structure and its reasonableness.
- ***Perform due diligence on potential providers.*** Executing agencies should require supporting documentation that confirms that bidders have the financial and technical capacity to deliver the required goods or services, or demonstrate their experience in supplying the goods. The amount and type of requested information should be commensurate to the size and complexity of the contract.
- ***From the onset of the procurement process,*** set up the inspection protocol. Executing agencies should ensure that they have proper inspection and acceptance procedures in place before making the purchase, or at least they should have prepared a detailed checklist to compare the items delivered against the technical specifications of the equipment.
- ***Communicate with beneficiaries about the relief efforts.*** It is crucial that executing agencies have a well-developed communication strategy during an emergency that acknowledges that the market does not behave normally, misinformation is common, and the public is anxious. Key elements to communicate include how beneficiaries will be prioritized, what will be received, how goods and services will be delivered, and if applicable, how they are being used by either professionals administering the goods or by the direct recipients.

2.13 The priority given to activities related to the COVID-19 pandemic is also reflected in Figure 7, which shows the 2020 distribution of integrity consultations arising from the five operational sector departments of the Bank. Although as in past years most of the consultations came from the infrastructure sector, the graph illustrates how the number of consultations that originated in the social sector almost doubled in 2020. The increase is likely the result of the stronger coordination between OII and SPH, and of heightened awareness of integrity risk management in COVID-19 pandemic-related operations in all applicable sectors.

Figure 7. Consultations by Sector (2017-2020)



Note: Figure excludes consultations not related to a specific sector.

2.14 Figure 8 illustrates the regional distribution of consultations according to where the programs are implemented.

Figure 8. Consultations by Region of Implementation of Programs, 2020



Note: Figure does not include consultations related to regional programs or which were non-program related.

2.15 Integrity Risks in Financial Management. In 2020 OII's preventive function worked on raising awareness of the importance of adequately managing financial integrity risks in IDB-financed programs. In this regard, the prevention team designed a training for the Bank's fiduciary personnel on the red flags of financial integrity risks and weak financial capacity of bidders, and offered corresponding mitigation measures. The prevention team also worked to extract lessons learned from investigations to share with project teams and issued two bulletins on financial integrity topics that were communicated to operational staff.

2.16 Integrity Risk Analyses. As part of OII's preventive activities, the Office conducts risk analyses of either a program, a sector, or a cross-cutting issue to identify and assess integrity risks that might affect the achievement of their development objectives in IDB-financed activities. In 2020, OII conducted two integrity risk analyses: one Integrity Risk Review (IRR) of two water programs implemented by a state-owned enterprise and an analysis of a process to procure equipment to treat COVID-19 patients (see summary of lessons learned in Case Studies 1 and 2).



CASE STUDY 2. First IRR Conducted for Two Water and Sanitation Programs Implemented by a State-Owned Enterprise

OII, in coordination with the project team and the respective country office, selected two programs because of their importance to the Bank's portfolio in a particular country and sector. OII concluded that the most significant sources of integrity risk in the execution of the programs stemmed from weaknesses in the executing agency's corporate governance structure.

Specifically, OII found that:

- the executing agency's (EA's) processes and procedures to execute routine operational decisions were overcontrolled and focused solely on compliance rather than on managing risk.
- the EA's management was involved in routine operational activities, which weakened the checks and balances of the executing agency's decision-making process and increased the risk of politically motivated decisions, instead of being based purely on technical factors.
- there was not sufficient public information about the EA's policies, reporting mechanisms, external audits, finances, and decisions of the Board. Low transparency creates opportunities for discretionary decision-making and use of resources, since it limits the scrutiny and oversight that citizens and other stakeholders can exercise. It could also have a negative impact on the EA's reputation and business relationships with suppliers, contractors, and potential bidders.

To mitigate these integrity risks, OII recommended the following measures to the EA:

- Streamline internal processes and procedures from a strategic management perspective, to identify unnecessary burdens that create bottlenecks and undermine operational and budgetary efficiency. Also, clarify the roles and responsibilities of each actor involved in relevant processes.
- Adopt a Board of Directors Charter to bolster transparency and accountability with regard to the Board's composition, duties, powers, and decision-making processes, including mechanisms to prevent and manage conflicts of interest of Board members.
- Increase and strengthen transparency and disclosure of information regarding its financial and operating results, related party transactions, awarded public contracts, and governance policies.

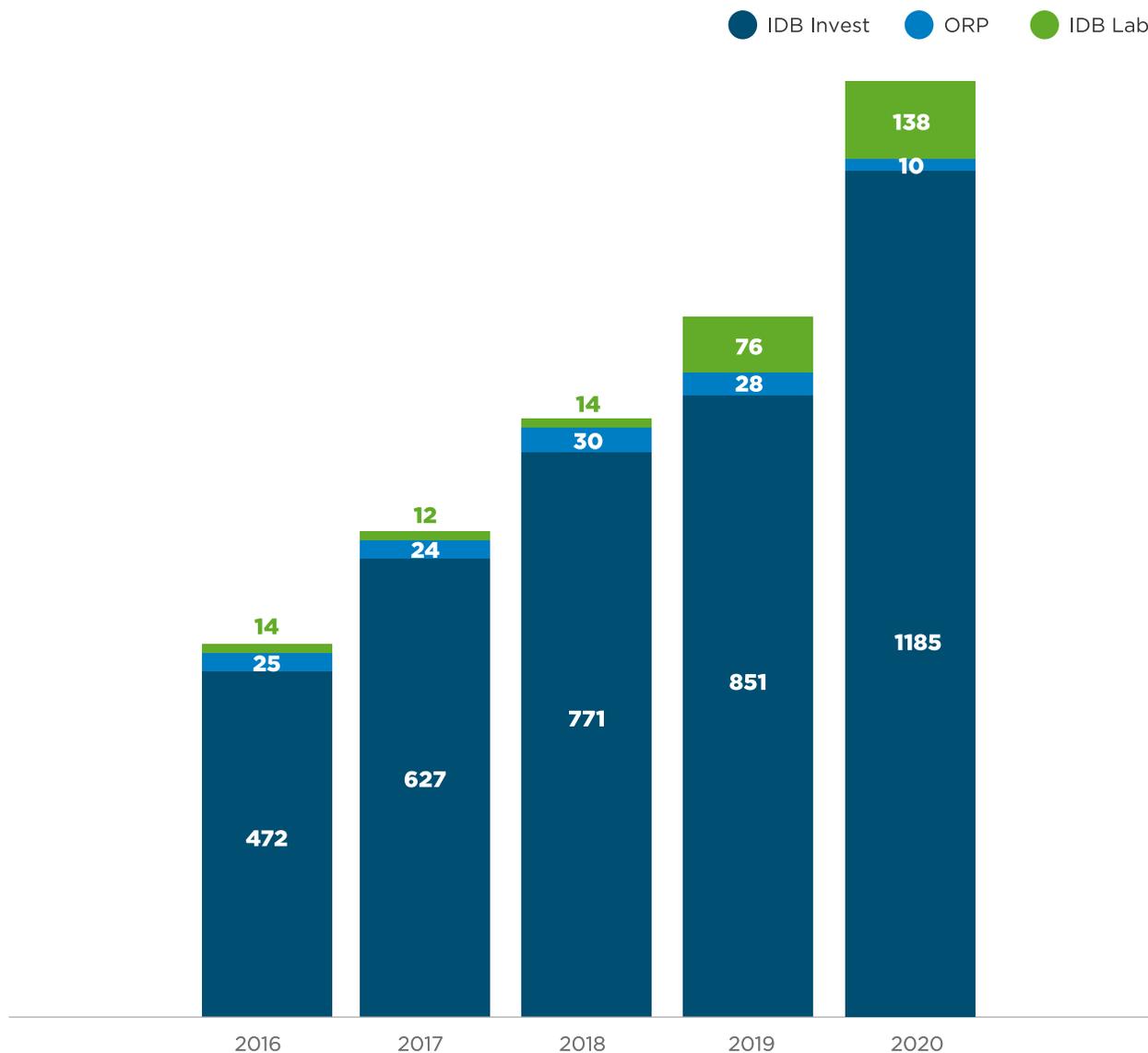
Good corporate governance in public utility companies is essential for key public services to deliver and operate more efficiently and with high standards of ethics and integrity.

2.17 Reports of Investigation. OII continued to extract lessons learned from investigations and shared this knowledge with Management and operational staff through Reports of Investigation (ROIs). These reports communicate any deficiencies or weaknesses in an IDB Group-financed operation identified during the investigation and recommend concrete areas of action that project teams can take to address them. In 2020, OII distributed seven ROIs to operational staff.

B. Integrity Due Diligence Support

- 2.18** OII provides regular integrity due diligence (IDD) support to three different units: IDB Invest, IDB Lab and the Office of Outreach and Partnerships (ORP). OII also provides *ad hoc* IDD support to other IDB units upon request. This support is centered on the assessment of integrity and related reputational risks, and also includes advice regarding the mitigation, disclosure, and ongoing management of such risks.
- 2.19** In 2020, OII adjusted its IDD practices for all of the units that it supports to account for the new threats and vulnerabilities presented by the COVID-19 pandemic. These efforts included increased scrutiny of certain types of misconduct (e.g., alleged price gouging) and adding new IDD questions to assess whether proposed counterparties had made adjustments that (i) could reduce the effectiveness of their internal controls (e.g., staffing, business practices); or (ii) were designed to mitigate increased risks (e.g., AML/CFT for financial institutions).
- 2.20 Support to IDB Invest.** In 2020, OII continued to oversee the IDD conducted on all IDB Invest operations. This IDD has three components: (1) know-your-customer reviews, focused on potential counterparties but extending to other relevant entities; (2) assessments of the anti-money laundering systems of financial institution counterparties, and (3) assessments of the risks (including tax-related risks) presented by counterparties with cross-border corporate structures. Based on these assessments, OII advises IDB Invest on whether a project presents: (i) **minimal** risks, i.e., risks that are within risk tolerance and do not merit disclosure or mitigation; (ii) **heightened** risks, i.e., risks that are within risk tolerance but merit disclosure to decision makers and mitigation where necessary; or (iii) **significant** risks, which are outside of risk tolerance.
- 2.21** In general, 2020 showed a significant jump in the number of consultations⁴ that OII processed for IDB Invest. This increase reflects the increase in IDB Invest operations in response to the COVID-19 pandemic, as well as a continuation of sustained yearly increases in the number of consultations. In total, OII responded to 1,185 IDB Invest consultations in 2020 – a 39% increase over 2019 and a 251% increase since the 2016 merge-out (see Figure 9). Of those consultations, 658 related to projects in origination and 193 related to projects in supervision, and both categories showed significant increases compared to 2019.

⁴ OII frequently provides advice to IDB Invest in multiple instances regarding a single project. Accordingly, OII tracks the work it does at each phase as a separate “consultation,” because each represents a distinct element of work for OII, and projects frequently begin their cycle in one year and finish in another. Accordingly, OII tracks both the number of projects on which it is asked to provide advice as well as the number of consultations to which it responds.

Figure 9. OII Consultations by Year (2016-2020)

2.22 For two years OII has been able to report data deriving from a data management system it implemented in 2018. According to this data, OII worked on 517 separate projects for IDB Invest – a number that includes 359 projects in origination and 158 projects in portfolio. OII completed a full IDD review and corresponding integrity risk assessment on 133 projects in origination in 2020⁵ and concluded that 66 (50%) presented minimal risk, 45 (34%) presented heightened risk (resulting in integrity disclosures and, frequently, mitigation measures) and 22 (17%) presented significant risk and therefore did not proceed to approval.

⁵ The remaining 213 projects in origination on which OII engaged but did not reach an integrity conclusion in 2019 were dropped, are still being analyzed, or are otherwise pending as of December 31, 2019.

2.23 In Figures 10.A and 10.B, these IDD outcomes for origination projects are compared to such outcomes for prior years, and show continued stability across those categories. This data is based on an analysis conducted in 2020 of all IDD outcomes on IDB Invest origination projects since merge-out. This metric was reported for the first time in 2020 as part of a Technical Briefing to the IDB Invest Board and is reported in the annual report of OII and the Sanctions System for the first time this year.

Figure 10.A Integrity Risk Assessment Outcomes (2016-2020)

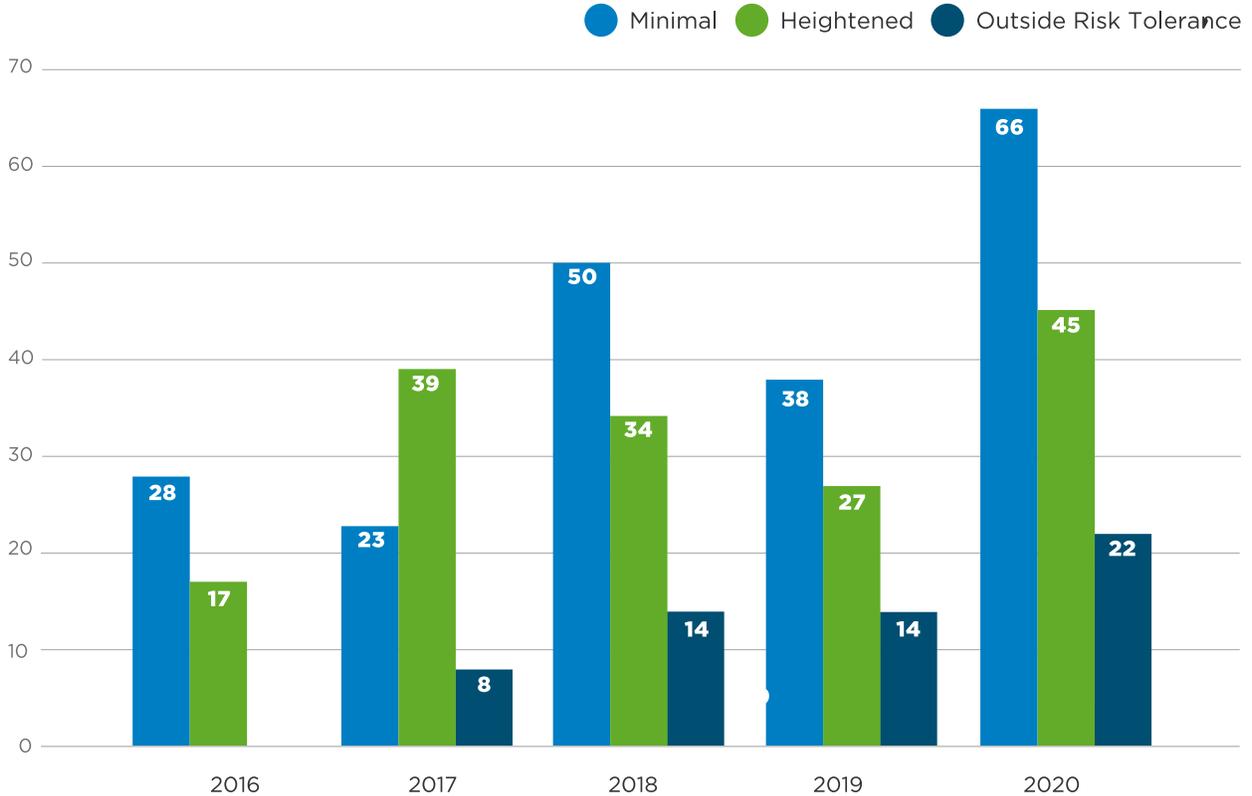
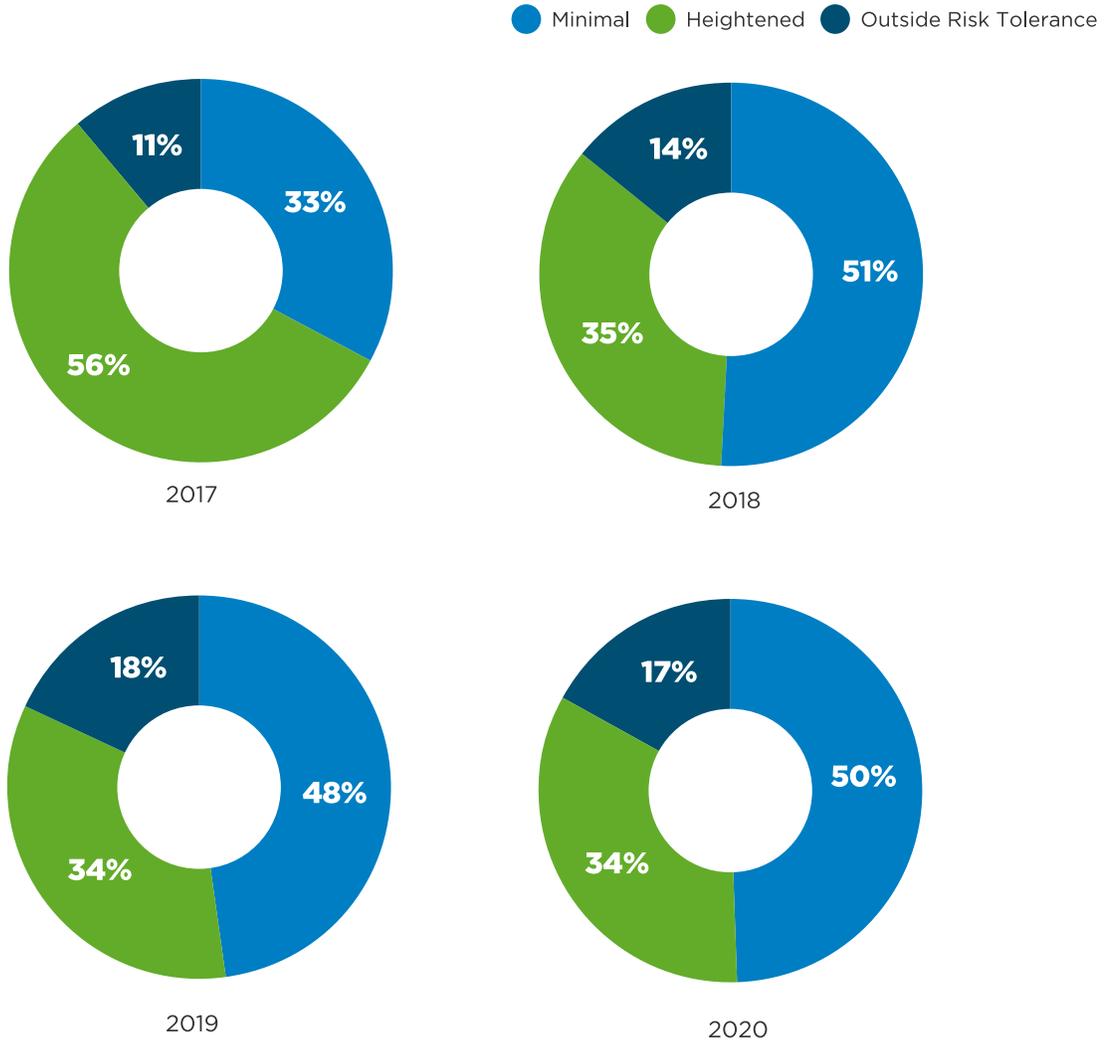


Figure 10.B Integrity Risk Assessment Outcomes (2017-2020)



Note: Percentages might not add up to 100% because of rounding

2.24 OII also advised on evolving integrity and reputational risks in connection with 158 projects in supervision, and began providing input for reporting to Management and the Board (via the IDB Invest Quarterly Portfolio Supervision Report) projects with integrity or reputational risks that merit heightened monitoring.

2.25 The rise in IDB Invest operations due to the COVID-19 pandemic explains the significant increase in OII’s support. This support was managed with existing OII resources through various means, including coordination and communication with IDB Invest division chiefs. While operational volume increased and processing times were shortened in the COVID-19 pandemic environment, the integrity standards applied to IDB Invest operations remained consistent.

- 2.26** While not reflected in these numbers, IDB Invest consultations also grew in complexity in 2020. This growing complexity was driven by multiple factors, including the continued fallout resulting from national and regional corruption cases, increased anti-corruption enforcement activity generally, improved press reporting on integrity matters, the increasingly frequent participation of large multinational companies in IDB Invest projects, and the expanding scope and sophistication of the financial products offered by IDB Invest.
- 2.27** OII also has worked to develop innovative approaches to the mitigation of integrity risks, including the development of an Integrity Risk Management System to ensure that the managers of funds in which IDB Invest participates address integrity and reputational risks in their portfolio consistent with international best practices. This system was included in a project for the first time in 2020 and will likely be incorporated in future IDB Invest projects with similar counterparties. Such innovation increases the awareness of integrity risk within IDB Invest counterparties and improves their capacity to manage such risks. These efforts help clients, bring added value to the region, and form an important element of the value proposition of IDB Invest financing.
- 2.28 Support to IDB Lab.** OII also saw a significant increase in the IDD support it provided to IDB Lab in 2020. While IDB Lab's integrity review method is broadly consistent with the one applied by IDB Invest, OII provides advice and technical support to IDB Lab upon request, rather than on every project. In 2020, IDB Lab requested support in 138 consultations, all related to projects in origination. This represented an 82% increase in the number of IDB Lab consultations compared to 2019, when OII responded to 76 IDB Lab consultations, and roughly ten times as many consultations as in 2018 (14 consultations) and 2017 (12 consultations). This sustained increase in consultations has been driven by (i) IDB Lab's increased volume in response to the COVID-19 pandemic, and (ii) a change in IDB Lab practice that has resulted in more frequent consultations – and a closer working relationship – with OII.
- 2.29 Support to ORP.** The scope of the due diligence that ORP conducts for partnership operations with nongovernmental entities is different from the IDD conducted for IDB Invest and IDB Lab. In 2020, OII responded to 10 consultations for ORP projects, a decrease from the 28 ORP consultations processed by OII in 2019. This change is partly explained by an overall decline in the number of partnership engagements carried out by ORP during the year.

C. Anti-Money Laundering/Combating the Financing of Terrorism Framework

- 2.30** OII, with the support of the Office of Risk Management (RMG), continues to advance the implementation of the IDB's AML/CFT Framework. During 2020, OII completed AML/CFT risk assessments for all IDB business units at Headquarters and converted each risk assessment into an implementation plan with defined actions and timelines for completion for that business unit. Agreeing to these implementation plans with business units signals the end of the risk assessment phase and initiates the control implementation phase. All IDB business units at Headquarters are expected to implement their AML/CFT controls by the end of 2021. The AML/CFT risk assessments for IDB Lab and the Country Offices are ongoing.
- 2.31** In addition, OII is working with the Information and Technology Department (ITE) to procure a new sanctions screening system and case management IT solution to allow for integration of automated AML/CFT controls by the end of 2021.

D. Trainings and Outreach Activities

- 2.32** Trainings. OII provides training to (i) increase awareness of the IDB Group's integrity framework and relevant policies, and of the corresponding responsibilities that IDB Group employees, executing agencies, beneficiaries of IDB Group financing, and private sector entities must abide by under this framework; and (ii) provide tools to internal and external audiences to manage integrity risk in IDB Group-financed operations. Additionally, on occasion, OII partners with other offices and departments to produce and deliver joint capacity-building activities that involve integrity issues.
- 2.33** During the COVID-19 pandemic, OII has adjusted to travel restrictions by relying on virtual channels to continue offering its knowledge-sharing activities to IDB Group personnel and partners. OII offered 23 training sessions, reaching out to at least 346 participants. In some of these training activities, OII reached internal and external audiences in the 26 borrowing member countries, as well as personnel based in Headquarters. OII put particular emphasis on offering guidance on the integrity risks present in emergency situations such as the COVID-19 pandemic and actions to mitigate them.
- 2.34** OII worked closely with the IDB Group's Office of Ethics in the design of a mandatory training for all IDB Group employees to raise awareness about what constitutes a "prohibited practice" and the obligation to report to OII any incidents or suspicions related to external parties. The training was of particular importance given that in 2020 the new prohibited practice of "misappropriation" and the updated definition of "obstructive practice" came into effect.

Table 1. Number of Trainings by Category

Type of Activity	Number
Orientation Seminar	1
Integrity in IDB Group-Financed Operations	6
Integrity Risk Management for Internal Stakeholders	6
Integrity in IDB Group-Financed Operations for External Audiences	3
Integrity Risk Management in IDB Group-Financed Operations for Executing Agencies	4
Integrity Due Diligence (IDD) Orientation	3

2.35 Outreach and Communications. To ensure that OII shared lessons learned with relevant internal and external audiences, the Office: (i) issued 12 monthly integrity bulletins for the Bank’s personnel; (ii) published the article “A focus on integrity: a common goal for the IDB Group and civil society” on Open Knowledge by the IDB Group; (iii) prepared along with other IDB Group departments a trivia contest for International Anti-Corruption Day to remind all Bank employees that the IDB Group stands #UnitedAgainstCorruption; and (iv) made presentations at external events such as the International Anti-Corruption Conference organized by Transparency International; the Conference on Corruption Compliance and Cybercrime in the Caribbean organized by the Caribbean Development Bank; and the Workshop on Administrative Sanction Mechanisms, a presentation to Brazilian state-owned enterprises on integrity regimes in MDBs.

E. Key Takeaways and Challenges

- 2.36** OII continued to see an increase in demand for its advisory services and placed a high priority on providing guidance and support to operational teams to help them navigate integrity risks during the preparation and implementation phases of the COVID-19 pandemic interventions. In light of the continued risks presented by a prolonged emergency, this will remain a priority for OII for the foreseeable future.
- 2.37** In 2021, OII's preventive function will (i) continue to seek efficiencies in the way OII works, given the expected volume of operations; (ii) strengthen integrity risk management in IDB Group activities to support countries and the private sector in overcoming the health emergency and the economic and financial disruption caused by the pandemic; and (iii) explore new alternatives to continue building the capacity of its staff and partners to prevent and mitigate integrity risks and their reputational impact.
- 2.38** OII has managed the increased demand to date for prevention and due diligence support through improved efficiency and prioritization of operational needs. However, longer term tasks (e.g., training, system improvements, monitoring evolving integrity standards) will require time and attention to ensure system quality. In addition, the IDB's new AML/CFT controls will require ongoing support from OII, which will serve as the AML/CFT compliance function.
- 2.39** OII also will continue to generate synergies between the public and private sectors on integrity issues, and to promote a culture of integrity through the dissemination of information and knowledge that raise awareness of the importance of preventing fraud and corruption, which will contribute to achieving the IDB Group's development objectives in Latin America and the Caribbean region.



III. Results of Investigations



III. Results of Investigations

A. Outputs of Investigations

- 3.1** In 2020, the COVID-19 pandemic had some effect on OII's ability to conduct investigations in a timely manner. In particular, restrictions on travel affected the Office's ability to carry out missions to project sites, carry out audits of companies, and conduct in-person interviews. To compensate for this and continue providing critical investigative services, OII sought alternative methods for its investigations. These steps included the increased use of remote audits, long-distance interviews, and pioneering a request for proposal process for the contracting of external providers with local presence for limited investigative support such as on-site audits and records recovery.
- 3.2** The COVID-19 pandemic also initially impacted the number of incoming allegations, resulting in a 20% decrease in allegations compared to the five-year median (see Figure 11). This was likely a result of delays in procurement processes in the LAC region, since allegations submitted to the Office often arise out of procurement activities. Despite these challenges, OII continued to prioritize its resources to uncover systemic risks in the IDB Group's operations. Specifically, through the case intake triage process, OII focused its efforts on high-impact investigations (defined as corruption, collusion, significant financial fraud in the execution of a project, or misconduct by executing agency personnel) with a five-year high of 85% of its total active investigations meeting this criterion (see Figure 15).
- 3.3** The record number of high-impact investigations was also a result of OII's and IDB Group operational teams' efforts to monitor local press and other indicators of adverse information regarding IDB Group operations or affiliated executing agencies or companies. This proactive monitoring resulted in approximately 10% of the new allegations. Many of these high-impact cases also involved national-level investigations, some of which required close coordination between OII and counterpart national authorities. OII continued to expand its cooperation with national authorities, signing three new cooperation agreements in 2020 (see Appendix III).

Figure 11. Total Allegations Received, Active, Processed (2016-2020)

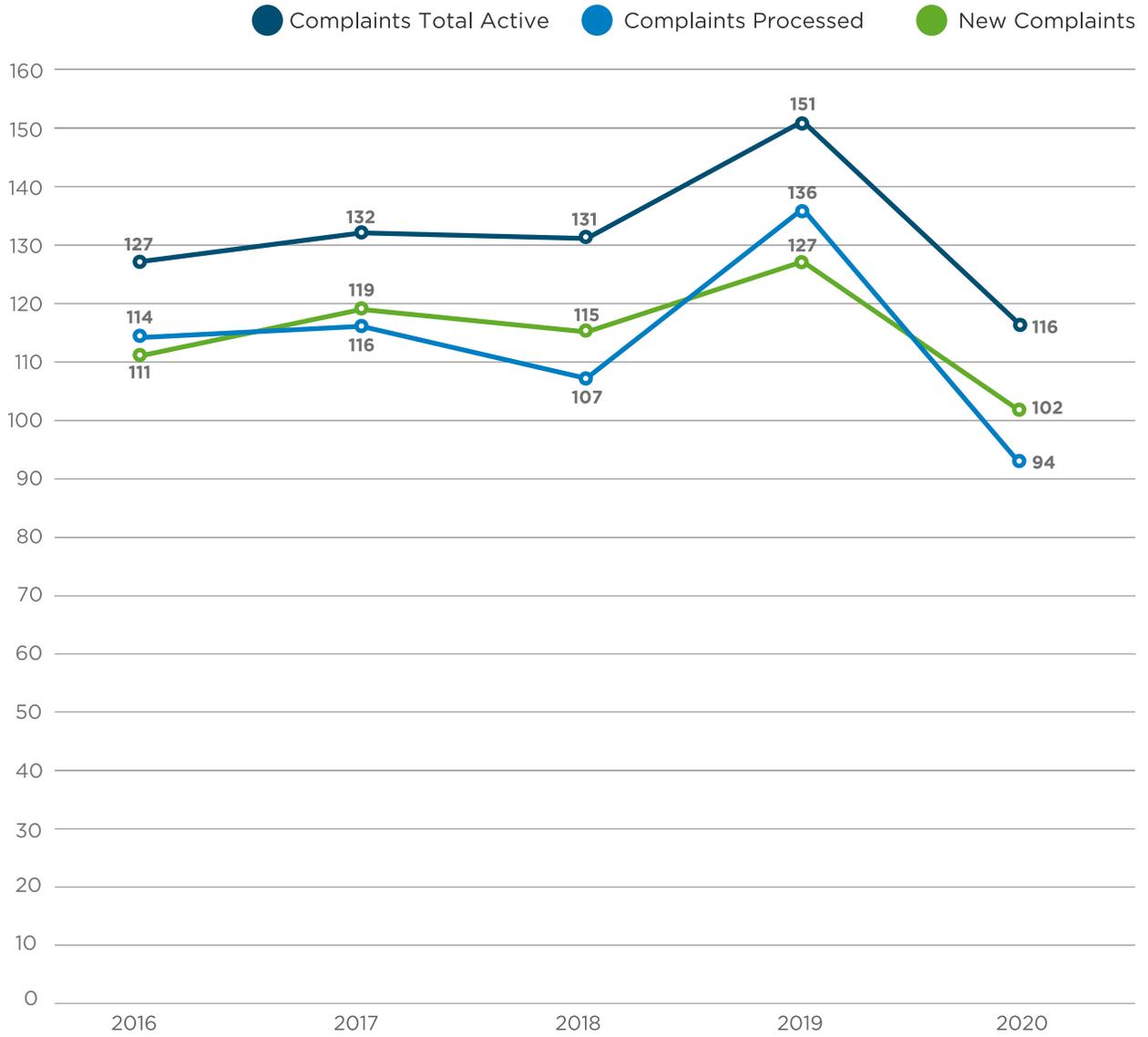
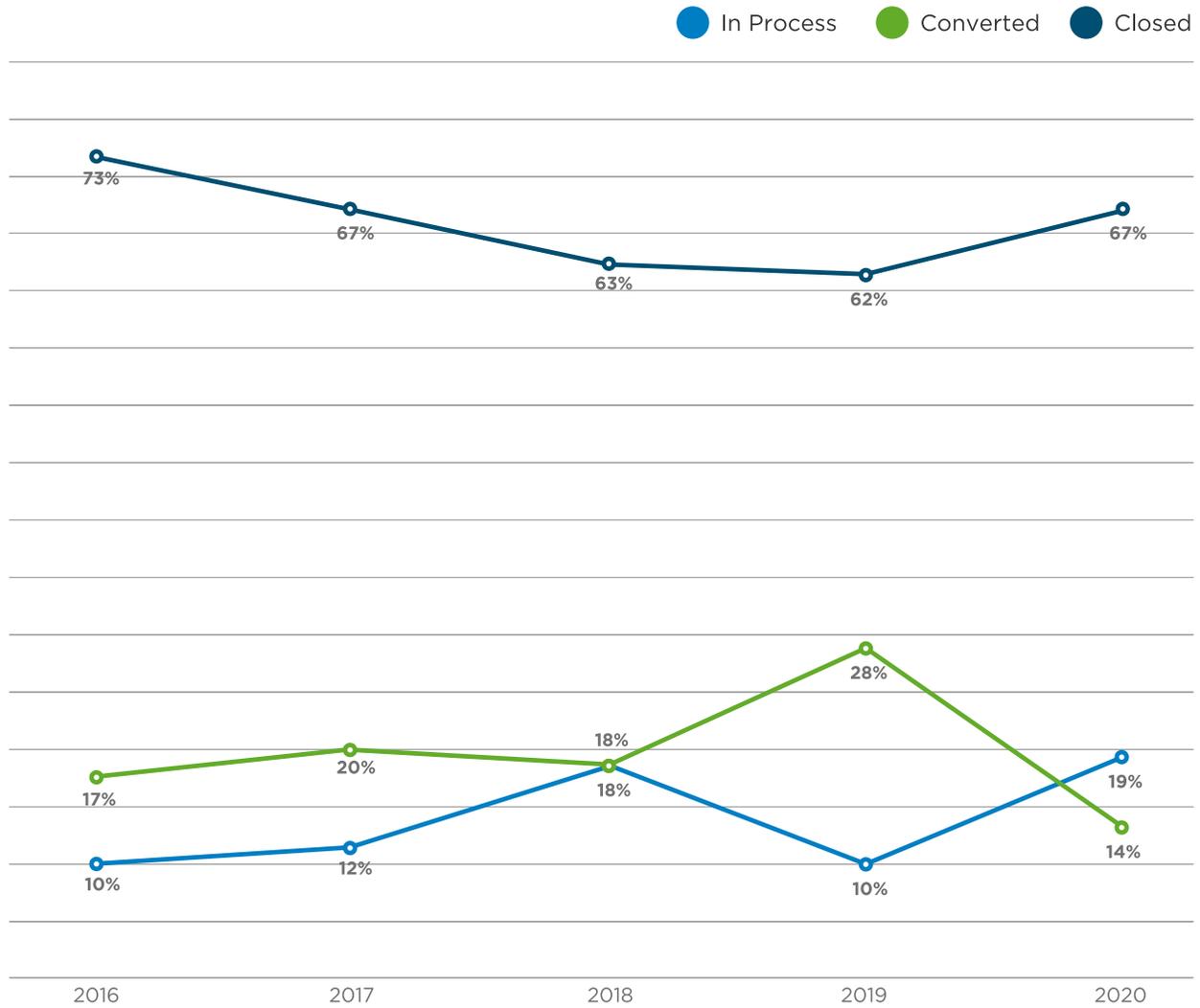


Figure 12. Percentage of Intake Matters Closed vs. Converted (2016-2020) (%)

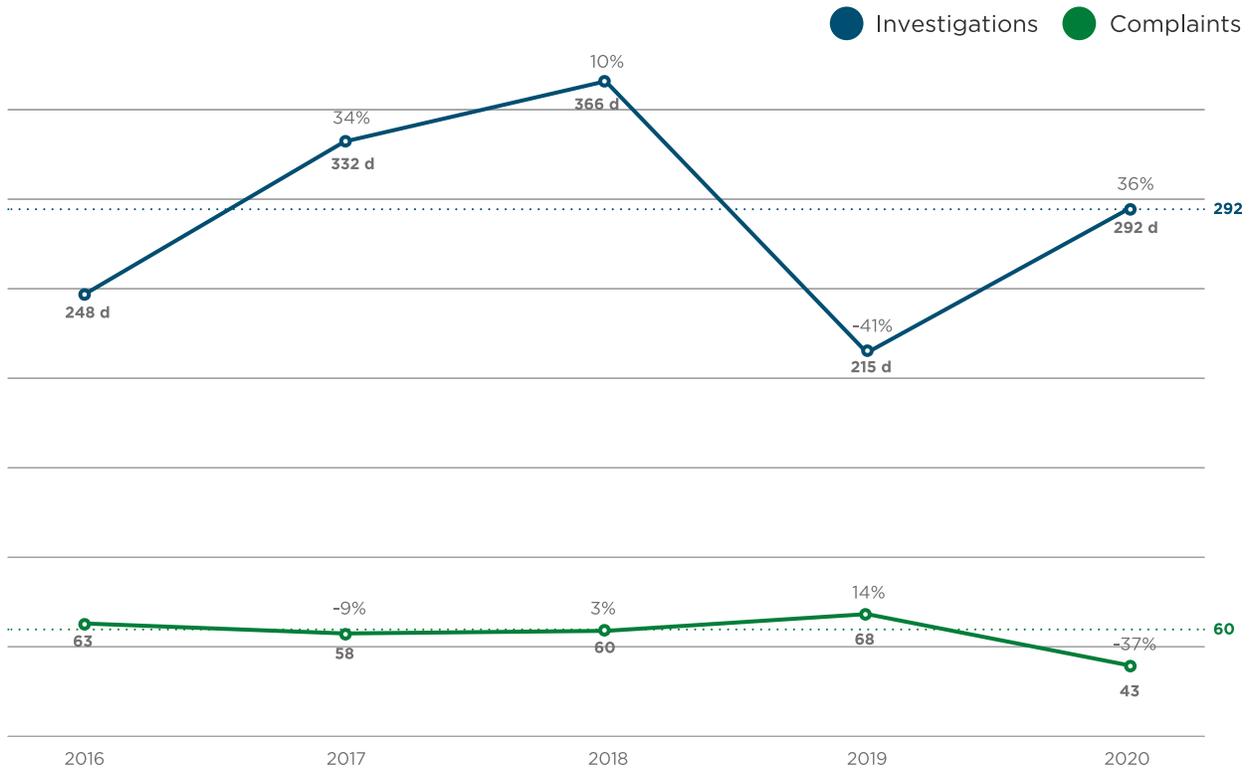


3.4 In relation to complaint handling, OII closed 67% of active complaints at the initial assessment stage, a 5% increase over 2019. Simultaneously, there was a 9% increase in cases still in process at year-end, which was directly related to the challenges faced by the Office in obtaining records from entities that were working remotely due to the pandemic.

Figure 13. Complaints by IDB Group Region, 2020

3.5 Processing times in Figure 14 (below) highlight the median time taken to close complaints or convert complaints to investigations (lower part of graph), and the median time taken to complete investigations (upper part of graph). In 2020, processing times decreased for complaints and increased for investigations, -37% and +36% respectively, over 2019. The significant improvement in efficiency in complaint processing is a positive development and OII will seek to continue this rate going forward. The increase in investigation times is attributable to the unique circumstances presented by the COVID-19 pandemic, as mentioned above, as well as the record number of high-impact investigations in 2020, which typically require more investigative steps, resources, and travel (see Figure 15). Despite these challenges, the Office continues to process its workload at levels at or below the five-year median.

Figure 14. Processing Times for Complaints and Investigations, (2016-2020) Days with Median



3.6 The record level of high-impact investigations is a result of the Office’s effective triage mechanism and continued monitoring of negative press. It is unlikely that this figure will reach above 85% going forward as the Office will need to continue investigating allegations related to, for example, fraudulent offers in IDB-financed activities as part of the IDB Group’s zero tolerance approach to prohibited practices.

Figure 15. Percentage of High-Impact Preliminary and Full Investigations (2016-2020)

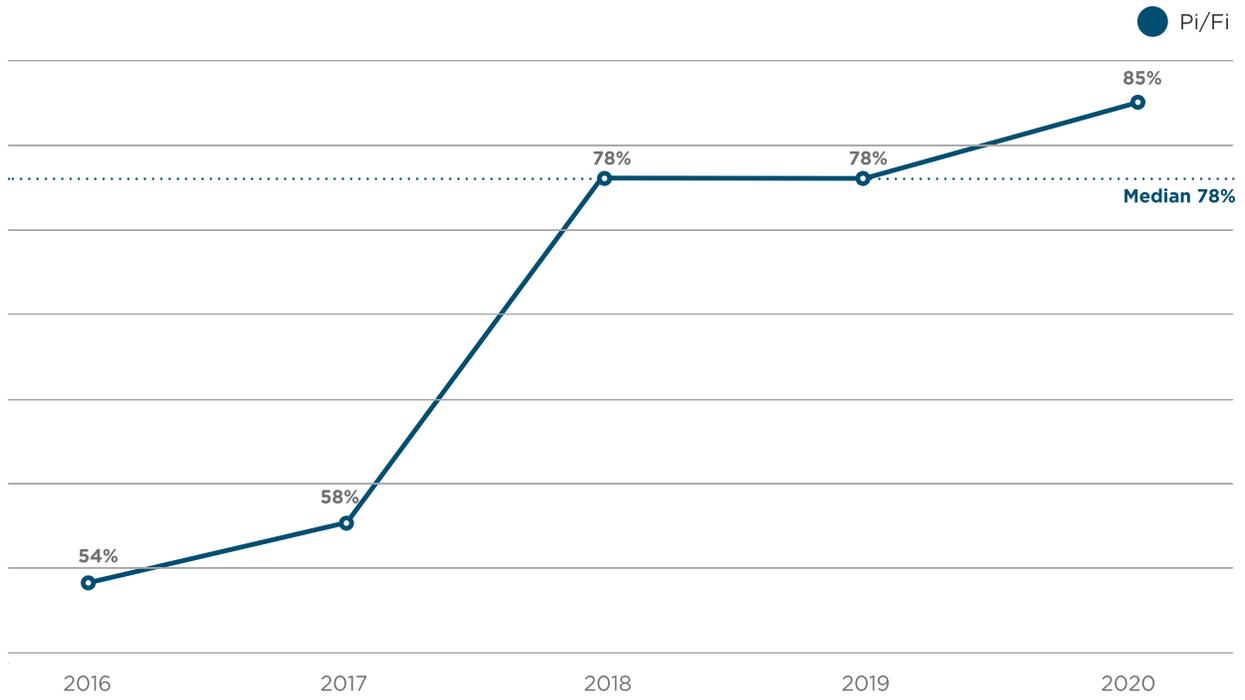
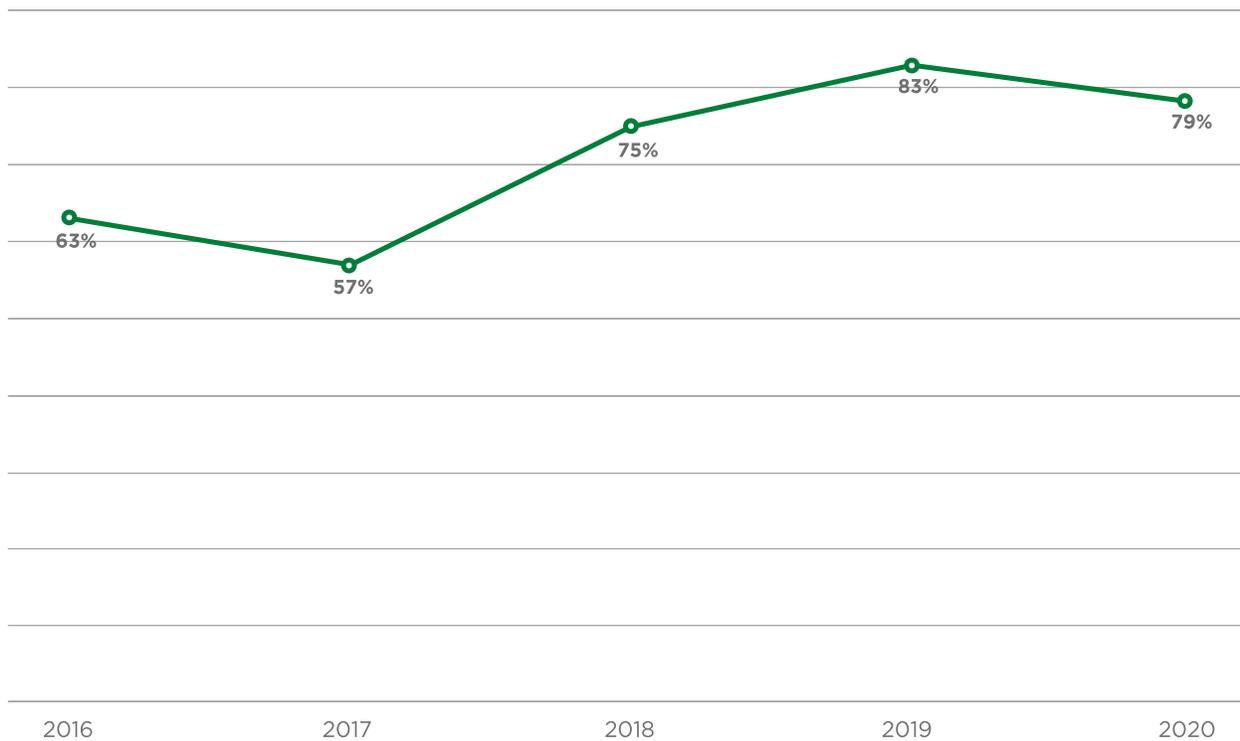


Figure 16. Percentage of Substantiated Investigations (2016-2020)



- 3.7** As can be seen in Figure 16 above, despite the challenges of the COVID-19 pandemic and volume of complex investigations, OII maintained a high substantiation rate of 79% for full investigations, well above the five-year median. In addition, OII maintained a 97% favorable decision rate for cases in which a final decision was issued by the Sanctions Officer or Sanctions Committee.
- 3.8** Lastly, in 2020 the Office also continued to use the negotiated resolution process to conclude high-impact investigations. Two investigations were resolved through Negotiated Resolution Agreements (NRAs), while several other investigations are under consideration for similar resolutions in 2021. This mechanism may be utilized in limited circumstances where cooperation by the parties involved facilitates understanding of systemic prohibited practices, integrity risks, or significant prohibited practices of other parties.



CASE STUDY 3. Orchestrating a Collusive Scheme

- **Allegation:** As part of a housing sector program, an executing agency (EA) managed procurement processes for five small works contracts awarded in close succession to four companies. The contracts encompassed the construction of various community-focused projects including road paving, drainage, and recreational centers. An external audit of the program found that two of the companies submitted potentially false performance guarantees for their respective contracts. During an early review of the allegation by OII additional red flags were identified, implicating two additional companies in a similar fraud, and the EA and four companies in a potential collusive scheme.
- **Investigative Findings:** OII's investigation found that the performance guarantees provided by the four companies were fraudulent, and in one case resulted in the EA not being able to execute the guarantee after a contractor abandoned the works. OII also identified a bid rotation scheme among the companies in which the ringleader was involved in the preparation of the remaining three companies' offers. In addition, the ringleader participated in and benefited from the execution of two of the three remaining companies' contracts. Lastly, OII concluded that the collusion and participation of the ringleader in contracts belonging to other companies was known to and assisted by members of the EA.
- **Recommendations:** Findings and lessons learned were shared with the project team. Because the EA is a key partner for the Bank in the particular country, OII advised Operations that prior to starting implementation of a new program, the Bank should ensure that the EA has mechanisms in place to: mitigate integrity risks and implement the corresponding controls or other measures, and strengthen its capacity to supervise works.
- **Sanctions System Actions:** OII submitted charges to the Sanctions System against the companies and relevant owners.

B. Key Takeaways and Challenges

- 3.9** OII's concerted efforts to draw more attention to high-impact investigations is resulting in positive effects. Through these more challenging investigations, many of which relate to complex corruption or collusion schemes, OII can better inform operational management and staff of the systemic risks affecting IDB Group programs. These efforts also have brought added attention to integrity issues affecting high-value contracts, often executed by multinational corporations with exposure to IDB Group-financed operations in the region. The systemic implications of these investigations may also give way to resolving matters through negotiated resolution processes, given that the disclosure of systemic integrity risks or other prohibited practices are a condition for NRAs. Collectively, these efforts in recent years have provided valuable lessons learned for prevention and have culminated in public recognition of the impact of the IDB Group's investigatory work.
- 3.10** In 2021, OII intends to continue pressing ahead with its focus on high-impact investigations. In addition, the Office expects to further solidify substantive collaboration with national authorities on investigations of mutual interest, as well as cooperation with other international organizations, including in the context of the COVID-19 pandemic response. While travel restrictions may continue to affect the pace of certain investigations, the Office is confident that alternative methods utilized in 2020 will continue to be implemented and effective while such restrictions continue.



IV. Sanctions Officer, Sanctions Committee, and Its Executive Secretariat



IV. Sanctions Officer, Sanctions Committee, and Its Executive Secretariat

4.1 The Sanctions System is comprised of the two-tier adjudicative levels: the Sanctions Officer (SO) and the Sanctions Committee (SNC). Its purpose is to review the cases prepared by OII as a result of its investigative work. The cornerstone of the Sanctions System is its independence and impartiality.

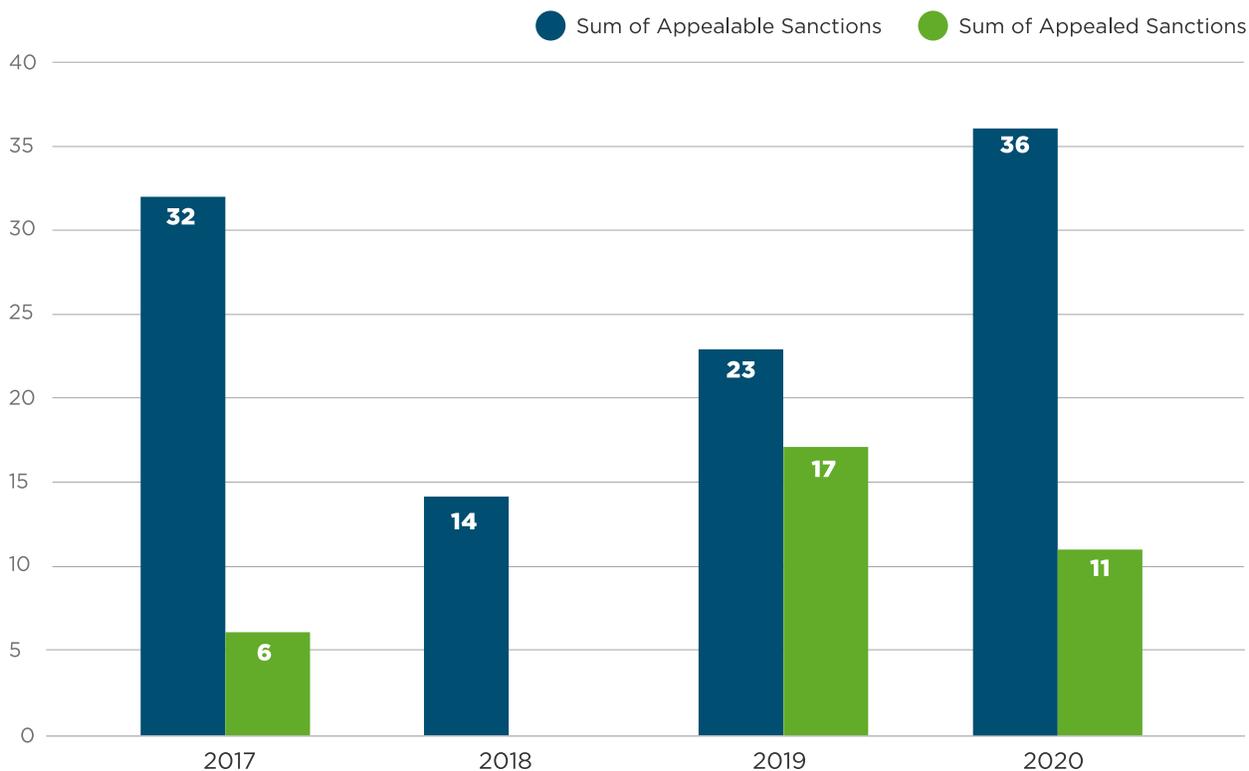
Figure 17. The Sanctions Process



- 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 Statement of Charges and Evidence (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 more likely than not engaged in a prohibited practice, imposes a sanction. Sanctions for uncontested proceedings will enter into effect immediately, whereas in contested proceedings – where a respondent presents a response to OII's SOC – the respondent has the right to appeal the sanction imposed by the SO to the SNC.
- 4.3** The SNC is the second and final-tier decision maker of the Sanctions System's adjudication mechanism. The Committee 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 it is more likely than not that the respondent engaged in a prohibited practice, in which case it imposes a sanction. SNC decisions are final and cannot be appealed. The SNC is comprised of members who are both internal and external to the IDB Group.
- 4.4** The Sanctions System is committed to providing respondents a robust process in the adjudication of their cases. Where possible, the SO and the SNC prioritize the following practices:
- Reviewing the written materials submitted by the respondents in their language of choice, if it is one of the four official languages of the Bank, as well as using the language of the respondent in issuing Notices of Administrative Action;
 - Following the Bank's protocol for the Delivery of Notices when issuing service of notice;
 - 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
 - When the respondent appeals, providing recourse to the SNC.
- 4.5** Moreover, the Sanctions System has monitored several entities that are subject to sanctions with conditional release, which requires the development or evaluation of integrity compliance programs instituted by firms of various sizes. Such compliance programs can serve as an effective tool to improve the integrity practices of sanctioned entities and safeguard Bank operations in certain sectors such as infrastructure. During 2020, monitoring and evaluating compliance programs as well as other conditions imposed on sanctioned entities was a significant activity for the Office of the SO. This work has involved engagement with sanctioned firms, monitors, and national enforcement agencies. Such a focus on integrity compliance conditions is expected to continue in the future.

A. Sanctions Officer Outputs

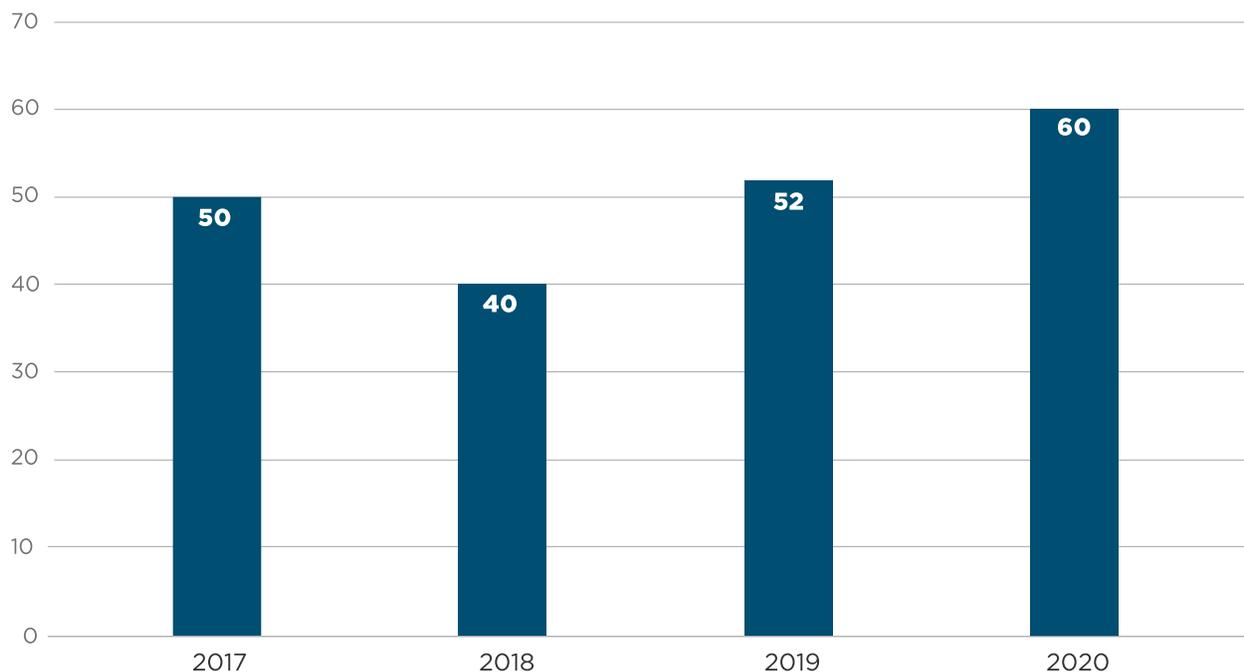
- 4.6** This past year the SO's main activities consisted of reviewing OII's SOC's, assessing OII's Requests for Determinations on Eligibility for NRAs, and evaluating compliance programs and the corresponding submissions by respondents and monitors. The SO observed an increase in submissions by respondents and monitors in relation to these compliance programs which required additional review and interaction with each party, including national authorities in some cases. Also, as part of the SO's outreach activities and work in fostering international best practices in sanctions systems, the SO was invited to carry out a comprehensive review of the sanctions system of a United Nations agency.
- 4.7 Statements of Charges.** In 2020, the SO received six OII submissions (five SOC's and one NRA request) and reviewed eight SOC's and two Requests for Eligibility for negotiated resolution agreements that were carried over from previous years. Typically, each OII submission involves multiple respondents. Each respondent is entitled to individual sanctions proceedings ("cases"). In 2020, there were 22 respondents implicated in OII's six **submissions**.
- 4.8 Notices of Administrative Action (Notices).** Once the SOC's have been reviewed, the SO must determine whether the charges described warrant the initiation of administrative sanctions proceedings. If the SO determines that a Notice should be issued, each respondent must be notified of their right to participate in the sanctions proceedings and contest the charges.
- 4.9 Notification Process.** The SO Notice informs respondents that sanctions proceedings have been initiated against them. Respondents then have 60 calendar days to submit a response. This procedure ensures that respondents receive proper notice, have an opportunity to submit a response, and can establish an efficient and effective line of communication with the Office of the SO.
- 4.10** In 2020, the SO issued 23 Notices (compared to 58 Notices in 2019). When the respondent cannot be reached through mail or courier, the SO publishes Constructive Notices on the IDB Group's Sanctions webpage. In 2020, the SO published 11 such Notices (compared to 21 Constructive Notices in 2019).
- 4.11 Contested Cases and Responses Received.** Under the Sanctions procedures, respondents may submit responses contesting OII's SOC's. The SO then reviews the SOC's and responses, determines whether additional information is required, and issues a Determination. Such contested cases are appealable to the SNC. In 2020, the SO received eight responses to SOC's for cases that will be decided in 2021.
- 4.12 Records to File.** In order to decide filed motions, extend procedural deadlines, and account for submitted Determinations, the SO must issue Records to File. In 2020, the SO issued 49 Records to File related to ongoing cases, whereas in 2019 the SO issued 76 such Records. However, in 2020 there was an increase in documentation issued related to compliance oversight, as well as meetings with respondents and monitors that are not accounted for in these numbers.

Figure 18. Appealed Sanctions (2017-2020)

Note: The appeal period for 23 determinations expires in 2021; therefore these cases are not reflected in this figure

4.13 Determinations. During 2020, the SO issued a total of 60 Determinations (compared to 52 Determinations in 2019). Of these Determinations, 53 were related to SOCs, 4 were related to Determinations for Eligibility for NRAs, 2 were related to release from debarment based on achieving compliance conditions, and 1 was a dismissal that did not result in case proceedings. The SO imposed sanctions in 51 of these Determinations. In 2020, 15 were uncontested and final, whereas 36 were contested and appealable to the Sanctions Committee, out of which 11 were appealed and 2 were not appealed. The remaining 23 Determinations have appeal periods that lapse in 2021 (see Figure 18 above).

4.14 There were two Determinations in which the SO did not impose sanctions and terminated the proceedings against the respondents, as the SO concluded that insufficient evidence existed to support the respective allegations of prohibited practices.

Figure 19. Determinations (2017-2020)

4.15 Sanctions Imposed. The table below summarizes the 51 sanctions imposed by the SO in 2020 by prohibited practice.

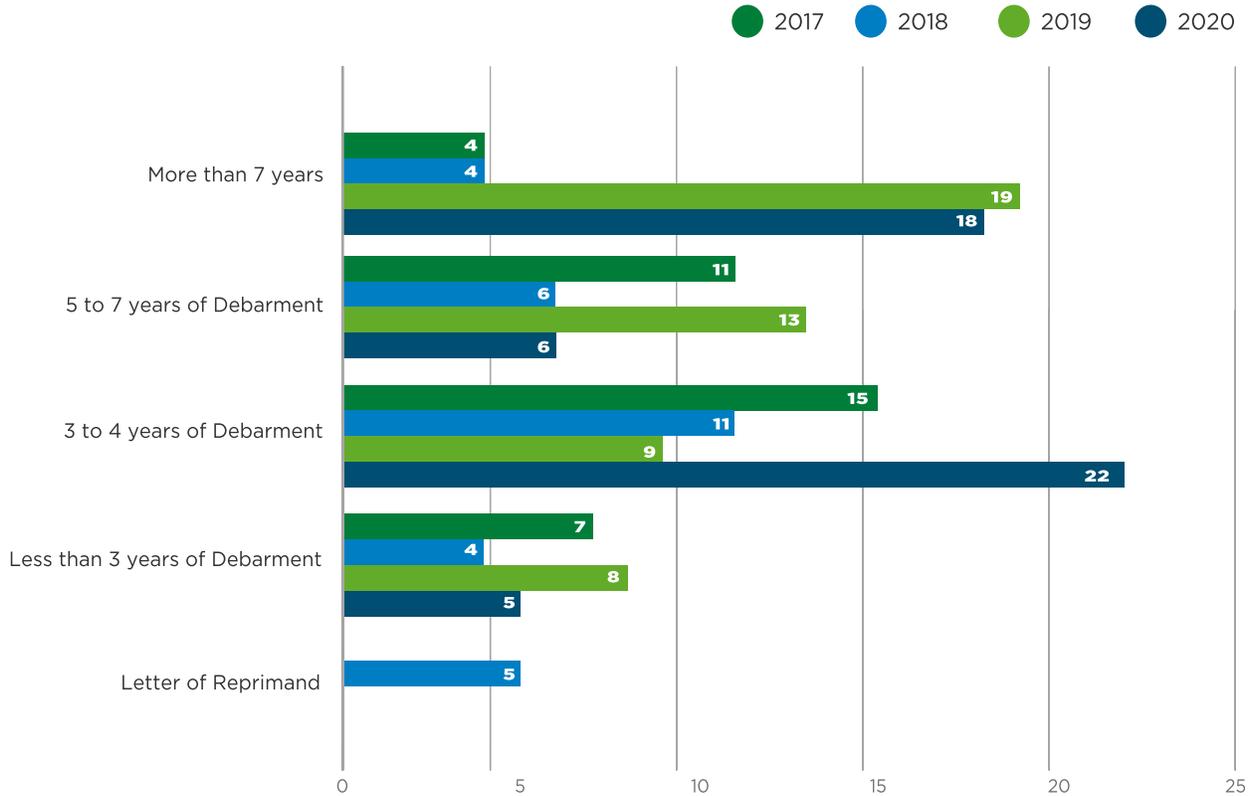
Table 2. Number of Prohibited Practices

Type of Prohibited Practices	Number
Fraud	6
Collusion	23
Corruption	1
Corruption and Fraud	21

4.16 Of the above-mentioned sanctions, there were 51 debarments that ranged from 2 years to 13 years, as illustrated in Figure 20. In total, 17 of the sanctions that were imposed and became effective in 2020 met the criteria of the Agreement on Mutual Enforcement of Debarment Decisions (Cross-Debarment Agreement) and were notified by OII for cross-debarment by the other MDBs.⁶ Finally, the SO is currently overseeing the implementation of conditions for four respondents in relation to conditional non-debarment and debarment with conditional release.

⁶ The remaining 34 debarments were not eligible for cross-debarment, either because the sanctions were appealed or appealable (with appeal periods still pending).

Figure 20. Distribution of SO Sanctions (2017-2020)



4.17 Compliance. Monitoring integrity compliance programs substantively increased in 2020. Notably, the Office of the SO oversaw the integrity compliance programs, and other conditions imposed on entities that entered into NRAs with the Bank. As a result, the SO was tasked with evaluating compliance programs in differing stages of implementation, as well as collaborating with national authorities and other MDBs when the sanctioned firms entered into multi-jurisdictional monitorships in negotiated settlement agreements.

4.18 Response Time. In 2020, the average processing time for the SO to review a case and issue Determinations was 396 days, an increase of 68 days in comparison to 2019. A significant number of cases required enhanced scrutiny due to the more complex nature of the allegations and the number of respondents named per case. Furthermore, in 2019 and 2020, the SO imposed conditions (i.e., requiring that respondents establish or remediate their existing compliance programs) and reviewed an increasing number of Requests of Eligibility for NRAs, both of which required an additional investment of time.



CASE STUDY 4. Conditional Debarments and Collaboration with Other Authorities

During 2020, the Office of the Sanctions Officer oversaw and evaluated various corporate entities that were subject to conditional debarment. In these cases, the SO was tasked with assessing compliance with conditions for release that accompanied the sanction. These respondents ranged from companies under monitorship with national enforcement agencies to a firm designing and implementing its first compliance program, underscoring the diversity of entities under the jurisdiction of the Sanctions System.

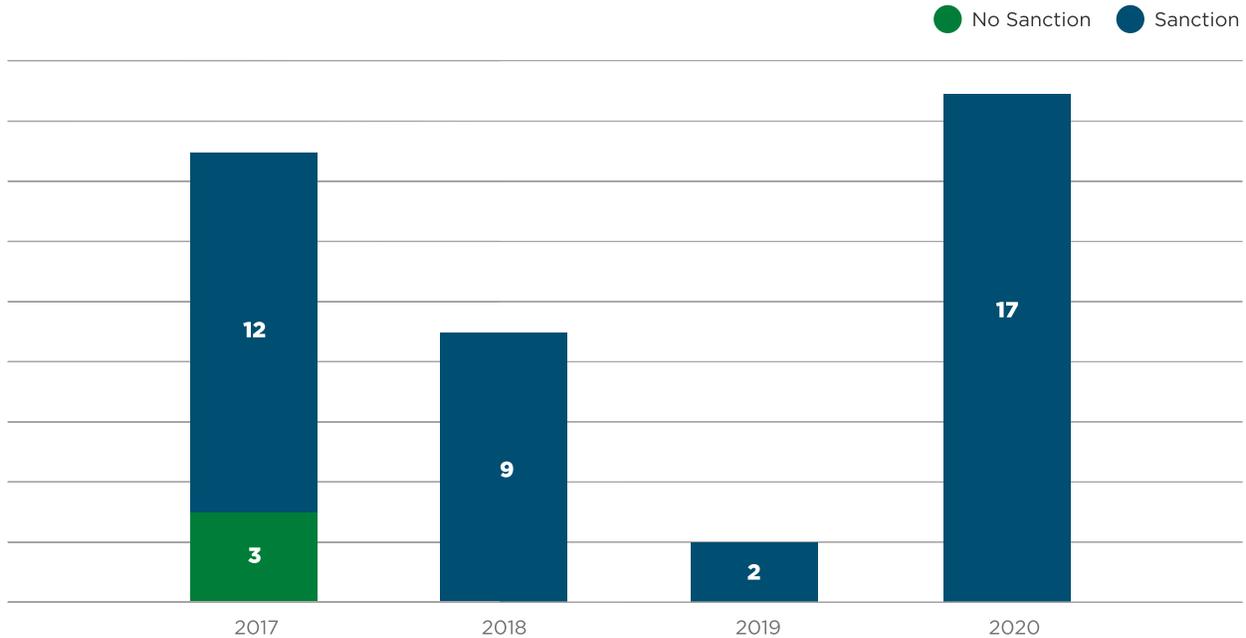
Medium-size enterprise. The SO reviewed the integrity compliance program that was designed by an external monitor, which was developed after a comprehensive risk assessment of the sanctioned firm's activities in Latin America. The compliance program was tailored to consider the firm's size and nature of its operations, and to focus on preventative measures to address the type of prohibited practice in which the firm was found to have engaged. The SO determined that the firm had met the conditions to enter conditional non-debarment and will review annual reports from the monitor during the period of conditional non-debarment to ensure the continued adherence to its integrity compliance program.

Multi-jurisdictional monitorships. In recent years, the Bank has entered into Negotiated Resolution Agreements (NRAs) with major engineering and construction companies in the region. As a result, these firms have been required to implement or improve existing integrity compliance programs to ensure effective reform. Such measures also lay the foundation for "clean" business in the region. In 2020, this involved engaging with national authorities, monitors, and firms that were working to meet the conditions for release from the IDB Group's sanction.

B. Outputs of the Sanctions Committee and Its Executive Secretariat

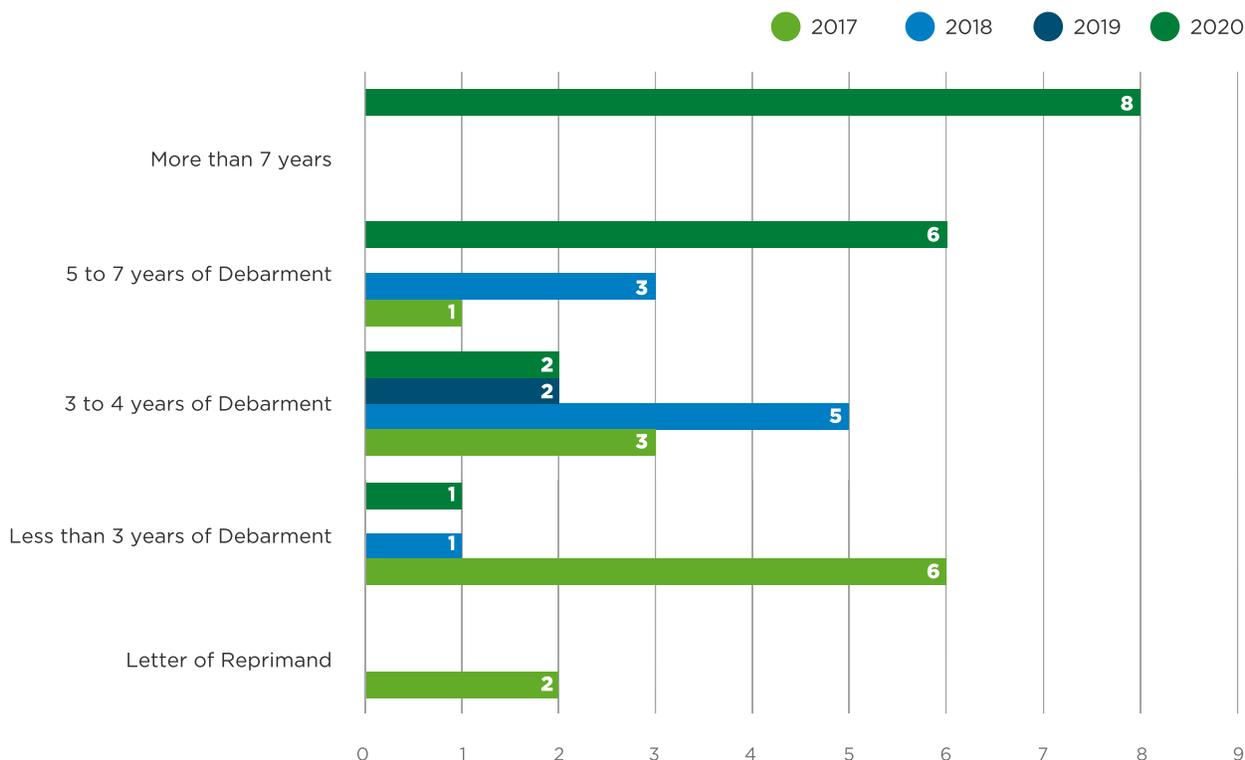
4.19 SNC Outputs. In 2020 the Sanctions Committee, through the Secretary, received 14 appeals from respondents on cases related to corrupt, fraudulent, and collusive practices. The Executive Secretariat drafted 88 communications (i.e., related to debarments, cross-debarments, and decisions) and referred them to OII, respondents, country representatives, and executive directors.

Figure 21. Sanctions Committee Decisions (2017-2020)



4.20 Sanctions. In 2020 the SNC issued 17 decisions compared to two decisions in 2019, imposing sanctions in all of them, as indicated in Figure 21. The nature of the sanctions and years of debarment imposed are summarized in Figure 22 (below). The 17 decisions were related to three cases, for which the three members of the Committee attended online remote meetings coordinated by the Secretary and presided over by the Chairperson of the Committee.

4.21 Cross-Debarment Agreement. The 17 debarments issued by the SNC met the requirements for cross-debarment and were communicated to the other MDBs by OII.

Figure 22. Distribution of Sanctions Committee decisions (2017-2020)

4.22 List of Sanctioned Firms and Individuals. As the administrator of the list of sanctioned firms and individuals, the Executive Secretariat published 47 debarments (30 issued by the SO and 17 issued by the SNC) imposed by the IDB Group Sanctions System that became effective in 2020 and the 169 debarments that were imposed by other MDBs⁷ 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 2020).

4.23 Pandemic Effects. As a result of the lockdown imposed by the COVID-19 pandemic in cities worldwide, the Secretariat received multiple requests for extensions of time for appeals, which were granted by the Chairperson of the Committee. The Executive Secretariat to the Sanctions Committee was able to seamlessly adapt to the conditions that resulted from the COVID-19 pandemic and continue serving internal and external demands as well as respondents and members of the Committee.

4.24 Membership of the Committee. During 2020, the terms of several members of the Sanctions Committee expired. Two new internal members of the Sanctions Committee were appointed in June 2020, including the Vice-Chairperson, to replace two outgoing internal members. An external member was re-appointed on May 1, 2020 for another term, and two new external members were appointed starting January 1, 2021, the result of an external competitive recruitment process.

⁷ The sanctions were distributed as follows: 99 by the World Bank Group, 23 by the Asian Development Bank, 43 by the African Development Bank Group and 4 by the European Bank for Reconstruction and Development.



CASE STUDY 5. **Sanction Imposed on a Public Officer**

The Sanctions Committee sanctioned a respondent for fraudulent practices related to a program focused on supporting the rehabilitation of roads and improving the transportation sector, financed by three non-reimbursable grant agreements. The respondent was an employee of the executing agency. While providing services for the program, the respondent received a supplementary salary paid by the program's funds. Thus, the respondent was subject to the provisions of the Bank's sanctions procedures.

OII's investigation found that the respondent engaged in a fraudulent practice by knowingly misrepresenting a firm's qualifications when submitting a report to the Bank to justify the award of contracts, thereby resulting in the firm obtaining an improper benefit.

The Sanctions Committee determined that it was more likely than not that the respondent engaged in a fraudulent practice by preparing, signing, and submitting the report to the Bank with the firm's misrepresented qualifications, misleading the Bank into believing that the company was eligible for the contract, with the intent of obtaining the contract's award to the company and thus a financial benefit for the company from the execution of the contract. This is the first time that the Sanctions Committee has issued a decision on a case involving a public employee.

C. Key Takeaways and Challenges

- 4.25** In 2020, the SO issued a record number of Determinations for sanctions cases as well as Determinations for Eligibility for negotiated resolution agreements. The large number of Determinations was partly due to a collusive practice case and a complex corruption case, both comprised of many individual respondents.
- 4.26** In all negotiated resolution agreements, the SO oversees and ultimately determines whether the firms have satisfied the conditions imposed (with the exception of certain conditions overseen by OII) in order to be released from sanction. As the number of negotiated resolution agreements potentially increases in the future, the SO will take on a greater role in integrity compliance. The development of robust integrity compliance programs can play a key role in promoting “clean” business practices in the region and will be an area of increasing focus for OII and the Sanctions System.
- 4.27** The Sanctions Committee through the Executive Secretary has received appeals from the appealable Determinations the SO issued in the second half of 2020. The moving average ratio of appeals has increased to 43% from the historical ratio of 33%. The pipeline of cases for Committee decisions in 2021 is more extensive than in previous years due to the extensions granted to respondents during the pandemic, and to the size and complexity of cases. Additionally, respondents are more typically represented by large law firms.
- 4.28** In 2021 the SNC and the SO will deploy the necessary resources to ensure that cases continue to be carefully reviewed. The SNC will liaise with other MDBs with a view to exchanging emerging trends and experiences, including in the 2021 Sanctions Appeals Bodies Meeting that is expected to be hosted by the IDB Group.

Appendix I: Prohibited Practices

A **“Corrupt Practice”** is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to improperly influence the actions of another party;

A **“Fraudulent Practice”** is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation;

A **“Coercive Practice”** is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of a party to improperly influence the actions of a party;

A **“Collusive Practice”** is an arrangement between two or more parties designed to achieve an improper purpose, including improperly influencing the actions of a party;

An **“Obstructive Practice”** is (i) destroying, falsifying, altering, or concealing of evidence material to an IDB Group investigation, or making false statements to investigators with the intent to impede an IDB Group investigation; (ii) threatening, harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to an IDB Group investigation or from pursuing the investigation; or (iii) acts intended to impede the exercise of the IDB Group’s contractual rights of audit or inspection or access to information; and

“Misappropriation” is the use of IDB Group financing or resources for an improper or unauthorized purpose, committed either intentionally or through reckless disregard.



Appendix II: Entities and Individuals Sanctioned in 2020*

Name	Entity type	Nationality	Country project	Ineligible from	Ineligible to	Grounds
Michel Maraney	Individual	Haiti	Haiti	10-Jan-20	9-Jan-22	Fraud
Andrade Gutierrez Engenharia S.A.**	Firm	Brazil	Brazil	23-Apr-20	22-Oct-22	Corruption
AG Construções e Serviços S.A.**	Firm	Brazil	Brazil	23-Apr-20	22-Oct-22	Corruption
Constructora Panorama S.A.**	Firm	Peru	Brazil	23-Apr-20	22-Oct-22	Corruption
Constructora Andrade Gutierrez S.A. de C.V.**	Firm	Mexico	Brazil	23-Apr-20	22-Oct-22	Corruption
E.E. Alto Cachapal Ltda.**	Firm	Chile	Brazil	23-Apr-20	22-Oct-22	Corruption
E.E. Alto Cachapal S.A.**	Firm	Chile	Brazil	23-Apr-20	22-Oct-22	Corruption
Consamazonica S.A.**	Firm	Ecuador	Brazil	23-Apr-20	22-Oct-22	Corruption
Ostrava Trading e Serviços Internacionais, Sociedade Unipessoal,	Firm	Portugal	Brazil	23-Apr-20	22-Oct-22	Corruption
Constructora Andrade Gutierrez S.A. de C.A.**	Firm	Venezuela	Brazil	23-Apr-20	22-Oct-22	Corruption
Amazonas Energia SAC**	Firm	Peru	Brazil	23-Apr-20	22-Oct-22	Corruption
Hidroeléctra Brito S.A.**	Firm	Nicaragua	Brazil	23-Apr-20	22-Oct-22	Corruption
Constructora AG Chile Ltda.**	Firm	Chile	Brazil	23-Apr-20	22-Oct-22	Corruption
Lourdes Victoria Merino Luna	Individual	Bolivia	Bolivia	29-Jun-20	28-Jun-23	Fraud
Global Finance Consultants Bolivia S.R.L.	Firm	Bolivia	Bolivia	29-Jun-20	28-Jun-23	Fraud
Salvador Duart	Individual	Spain	Barbados	7-Jul-20	6-Jul-26	Collusion
BDCTEC International SL.	Firm	Spain	Regional	7-Jul-20	6-Jul-26	Collusion
Maria Benilda Sandoval Valdéz	Individual	Guatemala	Guatemala	28-Jul-20	27-Jul-33	Corruption, Fraud, Collusion
Carlos Estuardo Cabrera	Individual	Guatemala	Guatemala	28-Jul-20	27-Jul-33	Corruption, Fraud, Collusion
Representaciones Comerciales y Distribuidora Total S.A.	Firm	Guatemala	Guatemala	28-Jul-20	27-Jul-33	Corruption, Fraud, Collusion
Corporación Sireco S.A.	Firm	Guatemala	Guatemala	28-Jul-20	27-Jul-33	Corruption, Fraud, Collusion
Comercializadora Intercontinental CEC. S.A.	Firm	Guatemala	Guatemala	28-Jul-20	27-Jul-33	Corruption, Fraud, Collusion
Cesa de Guatemala S.A.	Firm	Guatemala	Guatemala	28-Jul-20	27-Jul-30	Corruption, Collusion
Grupo Cesa Corporation Holdings S.A.	Firm	Costa Rica	Guatemala	28-Jul-20	27-Jul-30	Corruption, Collusion
Cesa de Nicaragua S.A.	Firm	Nicaragua	Guatemala	28-Jul-20	27-Jul-26	Corruption, Collusion
Cesa Tecnología de México S.A.	Firm	Mexico	Guatemala	28-Jul-20	27-Jul-26	Corruption, Collusion
Cesa de Panamá S.A.	Firm	Panama	Guatemala	28-Jul-20	27-Jul-26	Corruption, Collusion
Control Electrónico S.A.	Firm	El Salvador	Guatemala	28-Jul-20	27-Jul-26	Corruption, Collusion
Cesa de Honduras S.A.	Firm	Honduras	Guatemala	28-Jul-20	27-Jul-26	Corruption, Collusion
Cesa Tecnología de Guatemala S.A.	Firm	Guatemala	Guatemala	28-Jul-20	27-Jul-30	Corruption, Collusion
Cesa Tecnología de El Salvador S.A. de C.V	Firm	El Salvador	Guatemala	28-Jul-20	27-Jul-26	Corruption, Collusion
Sistemas Sólidos de Guatemala S.A.	Firm	Guatemala	Guatemala	28-Jul-20	27-Jul-33	Corruption, Fraud, Collusion
Marc Yonel Philippe	Individual	Haiti	Haiti	9-Oct-20	8-Oct-22	Fraud
Isaac Francisco Calderón Laínez	Individual	Honduras	Honduras	23-Dec-20	22-Dec-23	Collusion
Paula Angelina Ponce Gaitán	Individual	Honduras	Honduras	23-Dec-20	22-Dec-22	Collusion
Jesús Augusto López Rodríguez	Individual	Honduras	Honduras	23-Dec-20	22-Dec-22	Collusion
Elgrao S.A.	Firm	Panama	Panama	23-Dec-20	22-Dec-30	Corruption, Fraud
Fagar Servicios-97 S.L	Firm	Spain	Panama	23-Dec-20	22-Dec-23	Fraud
Fagar Panamá S.A.	Firm	Panama	Panama	23-Dec-20	22-Dec-23	Fraud
Joaquín Simón Fabrega Pérez	Individual	Spain	Panama	23-Dec-20	22-Dec-23	Fraud
Joaquín Fabrega Garré	Individual	Spain	Panama	23-Dec-20	22-Dec-23	Fraud
Fagar S.L. Panamá	Firm	Panama	Panama	23-Dec-20	22-Dec-23	Fraud
Grupo Oligarry S.A.	Firm	Spain	Panama	23-Dec-20	22-Dec-29	Corruption, Fraud
Grupo Oligarry Panamá S.A.	Firm	Panama	Panama	23-Dec-20	22-Dec-29	Corruption, Fraud
Agustín Olivares Garrigós	Individual	Spain	Panama	23-Dec-20	22-Dec-29	Corruption, Fraud
Francisco Sánchez Martín	Individual	Spain	Panama	23-Dec-20	22-Dec-25	Fraud
Fidel Antonio Vega Veliz	Individual	Panama	Panama	23-Dec-20	22-Dec-23	Fraud

* This table illustrates the sanctions which became effective in 2020

** Debarment with conditional release

Determinations made by Sanctions Officer	18
Decisions made by the Sanctions Committee	17
Negotiated Resolution Agreement (NRA)	12



Appendix III: Cooperation Agreements



Note: Figure includes all Cooperation Agreements signed as of December 31, 2020 between OII and national authorities as well as international organizations.

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

- Caribbean Development Bank (CDB) *Bridgetown, Barbados*
- Brazilian Federal Prosecution Service (MPF) *Brasilia, Brazil*
- Nordic Development Fund (NDF) *Helsinki, Finland*
- United Nations Development Program (UNDP) *New York, USA*
- National Commission of Markets and Competition (CNMC) *Madrid, Spain*
- Administrative Council for Economic Defense (CADE) *Brasilia, Brazil*
- Federal Economic Competition Commission (COFECE) *Mexico DF, Mexico*
- European Anti-Fraud Office (OLAF) *Brussels, Belgium*
- The Global Fund Office of Inspector General (OIG) *Geneva, Switzerland*
- Prosecution Office against Corruption and Organized Crime (FGE) *Madrid, Spain*
- National Office of the Public Prosecutor (FGE) *Quito, Ecuador*
- French Anti-Corruption Agency (AFA) *Paris, France*
- United Nations Office for Project Services (UNOPS) *Copenhagen, Denmark*
- Public Prosecutor's Office (MP) *Santiago, Chile* **New in 2020**
- Directorate of Criminal Affairs and Pardons (DACG) *Paris, France* **New in 2020**
- Comptroller General Office (CGU) *Brasilia, Brazil* **New in 2020**



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

- African Development Bank Group (AfDB) *Abidjan, Côte d'Ivoire*
- Asian Development Bank (ADB) *Mandaluyong, Philippines*
- European Bank for Reconstruction and Development (EBRD) *London, United Kingdom*
- European Investment Bank (EIB) *Kirchberg, Luxembourg*
- World Bank Group (WB) *Washington D.C., USA*

Appendix IV: Glossary⁸

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

Framework: While the Bank is not subject to national regulations, it has formalized its commitment, consistent with international best practices, to safeguard its operations from the risks of money laundering and the financing of terrorism. This Framework requires IDB business units to apply AML/CFT controls on all financial relationships with external counterparties, including donors, vendors, consultants, and consulting firms.

Complaints: Allegations received by OII potentially related to prohibited practices, including information obtained proactively by OII through research methods or reported publicly.

Conditional Non-Debarment: A sanction whereby a respondent is required to comply with certain remedial, preventative, or other measures as a condition to avoid debarment from additional contracts for projects. Failure by the respondent to comply with such measures in the prescribed time period may result in automatic debarment under the terms provided in the Sanctions Officer's Determination, the Sanctions Committee's Decision, or the Negotiated Resolution Agreement, as appropriate.

Constructive Notice: The inference that the respondent has knowledge of a Notice of Administrative Action or other type of communication by virtue of publication and/or other efforts to notify the respondent as deemed appropriate by and at the discretion of the Sanctions Officer or Executive Secretary, as applicable.

Cross-Debarment: An agreement among the African Development Bank Group, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank Group, and the World Bank Group to mutually enforce each other's debarment actions, with respect to the four harmonized sanctionable practices, i.e., corruption, fraud, coercion, and collusion.

Debarment with Conditional Release: A sanction whereby a respondent is subject to a debarment that shall be terminated upon compliance with conditions set forth in the Sanctions Officer's Determination or the Sanctions Committee's Decision, as appropriate.

Decision: A ruling issued by the Sanctions Committee assessing whether a preponderance of the evidence supports a finding that the respondent engaged in a prohibited practice.

Determination: A ruling issued by the Sanctions Officer assessing whether a preponderance of the evidence supports a finding that the respondent engaged in a prohibited practice.

Full Investigation: The final investigative stage for allegations of prohibited practices that are identified to have corroborating evidence that may lead to the substantiation of an allegation.

High-Impact Investigation: Investigation that pertains to allegations of corruption, collusion, significant financial fraud in the execution of a project, or misconduct by executing agency personnel.

⁸ The definitions contained in this Glossary are not necessarily official, but rather are provided to aid in the understanding of certain terms by readers of this report.



Integrity Due Diligence (IDD): In order to manage integrity risk and the associated risk of reputational and other impacts in its operations, IDB Invest conducts integrity due diligence on proposed operations prior to approving or otherwise effecting such operations and in a manner commensurate to the risks presented by the type of operation. Integrity due diligence includes the following core elements: (i) general integrity review, (ii) anti-money laundering/combating the financing of terrorism (AML/CFT) review, and (iii) structural integrity review.

Integrity Risk Review (IRR): Review of an IDB-financed program that is conducted by OII in close cooperation with project teams to identify factors that increase integrity risk and its reputational impact on the program. In broad terms, this preventive tool examines (i) internal controls, (ii) procurement, (iii) financial management, (iv) asset verification, and (iv) governance.

Letter of Reprimand: A sanction whereby a respondent is issued a formal letter of censure from the Sanctions Officer or the Sanctions Committee, as appropriate.

Negotiated Resolution Agreement (NRA): A process in which OII may seek a mutually agreed upon resolution (settlement) of a case, instead of a contested sanction proceeding, in which an investigated party admits or does not contest the findings of an investigation and provides evidence of systemic prohibited practices or integrity risks to IDB Group-financed activities.

Notice of Administrative Action: The document prepared by the Sanctions Officer that notifies a party that sanctions proceedings have been initiated against them as a respondent. A Notice of Administrative Action contains a copy of the Statement of Charges submitted by OII, states the initial finding of the Sanctions Officer, appends a copy of the Sanctions Procedures, and explains that the respondent has an opportunity to respond prior to a determination being made and/or sanction being imposed.

Preliminary Investigation: The initial investigative stage for allegations of prohibited practices that have passed an initial screening for credibility and mandate requirements.

Prohibited Practices: Parties subject to the IDB Group's jurisdiction are prohibited from engaging in the following practices: fraud, corruption, collusion, coercion, obstruction, and misappropriation. Misconduct related to such practices may lead to sanction proceedings (see Appendix I for further details).

Report of Investigation (ROI): Report that communicates to Management and project teams any operational or integrity deficiencies or weaknesses identified during an investigation completed by OII and suggests concrete actions to address them in the investigated project and in situations or projects with similar characteristics.

Request for Eligibility for a Negotiated Resolution Agreement: OII's request for a decision issued by the Sanctions Officer on whether the alleged actions of the investigated party, if substantiated, would constitute a prohibited practice and whether the eligibility criteria for a Negotiated Resolution have been met. The Sanctions Officer will provide OII with his or her concurrence that such agreement is permissible and the range of sanctions to which OII shall refer in negotiations.

Request for Temporary Suspension: The submission presented by OII to the Sanctions

Officer requesting that a temporary suspension be imposed on a respondent.

Request for Reconsideration: Respondent's submission requesting that the Sanctions Officer reconsider the imposed temporary suspension.

Respondent: Individual or firm alleged to have engaged in a prohibited practice.

Sanction: If a party is found to have engaged in a prohibited practice the possible sanctions are reprimand, debarment, conditional non-debarment, debarment with conditional release, and other sanctions, including, but not limited to, the restitution of funds and the imposition of fines.

Sanctions Committee: The second and final instance of the Sanctions System's adjudication phase, consisting of four external and three internal members appointed by the president of the Bank, to carry out the functions of the committee independently as set forth in the Sanctions Procedures and Sanctions Committee Charter.

Sanctions Officer: The first instance of the Sanctions System's adjudication phase, consisting of an individual appointed by the president of the Bank, who shall not be a member of the Sanctions Committee, and who serves independently as provided by the Sanctions Procedures.

Statement of Charges and Evidence: The formal pleading prepared by OII that identifies each party alleged to have engaged in a prohibited practice, outlines the alleged charges, and appends all evidence relevant to the determination of a sanction, including exculpatory or mitigating evidence in OII's possession.

Temporary Suspension: The Sanctions Officer may temporarily suspend a party from eligibility to participate in or be awarded additional contracts for projects pending the conclusion of sanctions proceedings.

Triage System: A case-weighting system used to ensure that investigatory findings will be available to address the most serious allegations of misconduct in activities financed by the IDB Group.



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