BANK MANAGEMENT’S COMMENTS ON THE
“PRELIMINARY REPORT CONCERNING THE ANTI-CORRUPTION FRAMEWORK OF
THE INTER-AMERICAN DEVELOPMENT BANK” (DOCUMENT GN-2440-1)

I. General Comments

1.1 This document contains Management’s comments on document GN-2440-1 of 18 September 2008, for consideration by the Board of Executive Directors’ Audit Committee at an upcoming meeting. The Preliminary Report summarizes anti-corruption activities in the Bank and is quite positive on the way the different units of the Bank have been handling this matter.

1.2 Although many of Management’s comments on a previous draft were taken into account, several remain valid. Considering the significant number of recommendations made in the document, Management would have preferred to see them grouped and ranked in order of priority. In terms of prioritization, it would have been useful to have the recommendations in order of critical importance for enhancing the Bank’s anti-corruption operations and response. As are presented in the report, the recommendations are not clearly differentiated in terms of relevance, feasibility of implementation, and suggested sequencing.

1.3 Management agrees with the Preliminary Report’s general conclusion as to the need to strengthen the Bank’s good governance and anti-corruption work (external efforts)—in comparison to activities to prevent, dissuade, and provide remedies against fraud and corruption in Bank-financed activities—and agrees that efforts should concentrate on that area, without impinging on activities being pursued in the area of internal prevention. In this regard, it would have been useful for the report to note, when applicable, how the recommendations may be affected by the nature of the operations financed by the Bank, with and without sovereign guarantee.

1.4 Lastly, in terms of practices at other institutions, although some information regarding the World Bank is included, it would have been desirable for the Preliminary Report to provide more analysis of practices at other comparator institutions.

1.5 The sections that follow present Management’s comments on the main points of the Preliminary Report, and explain how it is proceeding, or plans to proceed, to address them, in accordance with the dialogue with the Board of Executive Directors.

II. Anti-corruption Strategy and Action Plan

2.1 The Bank’s commitment. Management agrees with the Preliminary Report’s recommendation on the need for a Bank-wide anti-corruption strategy and action plan. The Bank has made a clear commitment at the highest level of the institution, in response to increasing efforts of the countries to prevent and control corruption.

2.2 Management also agrees with the conclusions as to: the strategic opportunity offered by the new institutional structure, previous efforts including the 2001 Systemic Framework Against Corruption, the work of the Anti-corruption Working Group in 2007, the work
being done by ICF and OII, and the support found among members of the Bank’s Board of Executive Directors.

2.3 **Strategy review.** Management agrees on the need to review the anti-corruption strategy and seek Board approval for it.

2.4 **Action plan.** Additionally and related to the strategy, Management accepts the need to more fully develop the Third Pillar of the Systemic Framework, translating its guidelines into a specific action plan. The Action Plan being formulated by ICF with input from OII, will be the first step in that direction. The areas addressed include:

a. A country focus for the handling of anti-corruption matters, such that the Bank gains knowledge of vulnerabilities in a country’s administrative practices, laws, and procedures, thereby permitting targeted remedial actions to reduce the opportunities for corruption and to increase likelihood of successful responses. The Action Plan will thus allow the Bank to deepen its country knowledge and to improve country strategies, product offerings, and design and execution of operations.

b. The use and strengthening of country systems, which are intrinsically related to measures to prevent and identify corruption and integrity risks that the Preliminary Report recommends the Bank should support.

c. The commitment to offer Capacity Building Products (KCP) that will allow the Bank to respond to client demands and provide good governance assistance.

d. A definition of functions within Bank units in line with their areas of expertise that leverages the matrix structure.

III. **Oversight Committee on Fraud and Corruption (OCFC)**

3.1 **Role of the OCFC.** Management agrees with the recommendations related to the role of the OCFC and will take action to implement them, moving the OCFC into a strategic and policy-making role, away from one of overseeing specific cases.

3.2 **OCFC membership.** Management agrees that the committee’s membership should be reviewed, taking into account the role change described above.

3.3 **Roles of other Bank units and committees.** Given the change in the OCFC’s role, Management will also review the functions of OII, ICF, the Sanctions Committee, and other Bank bodies including the OPC in relation to investigations and prevention activities.

3.4 **Creation of a Supporting Group for the OCFC.** The Preliminary Report recommends the establishment of a Group at the submanagerial level, to provide support beyond that ordinarily provided by a secretariat. Management will explore the establishment of such a group, depending on the final arrangement of the OCFC.

IV. **Office of Institutional Integrity (OII)**

4.1 **OII within the Bank’s structure.** Management recommends that, in conjunction with the Board of Executive Directors, a time should be set to discuss a proposal to
incorporate OII into the Bank’s organizational structure as a separate office under the Office of the President.

4.2 **OII’s functions and responsibilities.** The Preliminary Report suggests an expansion of OII into operational matters. Management believes that in order to safeguard the independence that OII must have, country dialogue on anti-corruption matters and the design and execution of operations should be the responsibility of ICF. We agree that overseeing the integrity of projects financed by the Bank (with and without sovereign guarantee) is a clear, core responsibility of OII. There is also a need to coordinate with the two units in establishing clear feedback mechanisms, so that the findings of internal investigations can be incorporated into the design of new operations.

4.3 Collaboration between ICF and OII within the matrix structure is necessary for activities to strengthen countries in the prevention of fraud and corruption. Since the Action Plan described above will propose a crosscutting approach to corruption prevention, Management will identify which body or bodies can provide effective coordination among the different Bank units. Special attention will be paid to the functions and mandates given to such body or bodies and to the advantages of the matrix structure, so as not to generate conflicts of interest, create an additional decision-making body, or duplicate the assigned functions.

4.4 **Additional resources for OII, Sanctions Committee, and Ethics Officer.** The Preliminary Report highlights the need for additional human resources to facilitate the work of the Ethics Office, Sanctions Committee, and OII. Management believes that the priorities, roles, and responsibilities and coordination mechanisms of these units should be reviewed before deciding what levels of resources are appropriate.

4.5 **Triage and case-weighting system.** Management agrees that OII should adopt a more proactive and selective approach in its investigations, using tools such as the “red flags matrix” and triage and case-weighting systems. Accordingly, during the 2009 budget preparation process, it has earmarked resources for OII and PDP for the “red flags matrix” and plans to develop a triage and case-weighting system, consulting the practices in use at other institutions. Management agrees that this approach will not be to the detriment of the policy of “zero tolerance” for corruption.

4.6 **AUG audits of OII.** Management agrees that OII should be subject to regular AUG audits, as recommended in the report. An audit is scheduled for 2009.

V. **Sanctions Committee**

5.1 **Alternatives for the Sanctions Committee.** Management acknowledges the need for changes in the functioning of the Sanctions Committee and its Secretariat.

5.2 Accordingly, it believes that alternatives in addition to those proposed in the Preliminary Report need to be explored, in order to have enough facts to make an informed decision. In the coming months it will gather more information on how these matters are handled at other institutions, and explore the possibility of mechanisms shared with such institutions as the World Bank. **Case Analyst.** Along these lines, in regards to the Case Analyst, Management will study practices at other institutions prior to making any changes.
Specifically, it will study matters related to position in the organizational structure, functions, and caseload.

5.3 **Use of information resulting from investigations.** The Preliminary Report could have made recommendations on how the Bank should use the information that results from its investigations. For example, it would be useful to have recommendations regarding appropriate systems and mechanisms to ensure sanctions are enforced. Without prejudice to the foregoing, Management has been working on this matter.

VI. **Recommendations, Related Matters**

6.1 Among the recommendations in the last section of the Preliminary Report, Management believes it would be inadvisable to:

a. In considering a loan application, consider whether a borrowing country has established a law reform commission, or has ratified and is implementing the OAS and UN anti-corruption conventions.

b. Merge the staff and Board Codes of Conduct.

c. Impose ex ante conditionalities on investment loans, regardless of country needs.