

# Institutional Integrity

**IDB GROUP**  
*Leading with Integrity*



# THE INTER-AMERICAN DEVELOPMENT BANK GROUP

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

The IDB Group, which includes the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF), is the main source of multilateral financing for economic, social and institutional development projects as well as trade and regional integration programs in the Latin America and Caribbean region. Through its loans, grants, guarantees, policy advice and technical assistance, the IDB Group is a key partner with each of its 26 borrowing member countries, promoting sustainable economic growth and poverty reduction.

The IIC is a development institution established in 1984 under the auspices of the IDB to promote the economic development of its Latin American and Caribbean member countries through financial support for private enterprise. It particularly targets

small and medium-size companies that have difficulty obtaining financing from other sources on reasonable terms.

The MIF began operating in 1993 to promote broad-based economic growth through private-sector development, particularly in microenterprise and small business. A successor to MIF, MIF II, was authorized and founded as of March 2007; MIF II's purpose is more specifically focused on economic growth and poverty reduction.

To learn more about the IDB Group,  
please visit our Web sites:  
[www.iadb.org](http://www.iadb.org)  
[www.iic.int](http://www.iic.int)  
[www.iadb.org/mif](http://www.iadb.org/mif)

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## FROM THE PRESIDENT



To say that 2008 brought serious economic challenges and uncertainty throughout the world is certainly an understatement. But, it means that the financing assistance provided by the Inter-American Development Bank Group to our members and clients is even more important now than a year ago – as a bulwark against tough times and to retain the economic development gains that they have worked so hard to achieve.

The Bank is committed to helping the region ride out the recent economic turmoil by working with local authorities to meet the challenges ahead, while continuing to lead with integrity. Recognizing the need to remain focused on sustainable growth and reduction of poverty, the Bank launched a US\$ 6 billion Liquidity Program for Growth Sustainability. This program provides lending resources to central banks and governments that can be directed through commercial banks to particular sectors that are facing liquidity constraints. Additionally, the support that the Bank Group gives to small and medium-size enterprises - the heart of so many communities - as microfinance for those who need just a bit of help, may now be the only financing lifelines available to them.

So we reaffirm to our member countries, clients and partners our commitment to fulfill our mission and mandate for economic development as we also recommit to the foundation of integrity upon which all such development depends. It is times such as these that remind us how important it is to stay true to this foundation. With the leadership of the Office of Institutional Integrity, we have worked hard this past year to enhance and improve integrity tools and practices and to share our results-based knowledge with others. We expect even larger gains in our integrity activities in the coming months, as we implement recommendations from the two outstanding external reviews that assessed our anti-corruption and integrity frameworks in 2008.

We continue to harmonize our policies with peer organizations and to share best practices and lessons learned with member countries. This next year we will be rolling out new tools for prevention and becoming more strategic in our investigations. We know that integrity efforts will make a difference, by increasing portfolio effectiveness directly and by improving our risk - management strategies.

Through the work of the Office of Institutional Integrity, along with other units of the Bank Group, we continue to make clear our promise to uphold the principles of trust, honor, responsibility, transparency, and integrity for ourselves and for those whom we serve.

A handwritten signature in black ink, consisting of a large, stylized 'L' followed by a series of loops and a final horizontal stroke.

Luis Alberto Moreno

## ABBREVIATIONS

AAF	Anti-corruption Activities Fund
AUG	Office of the Executive Auditor
CAF	Corporación Andina de Fomento
CAN	Country Department Andean Group
CABEI	Central American Bank for Economic Integration
CCB	Country Department Caribbean
COF	Country Office
EA	Executing Agency
EO	Ethics Office
EXR	Office of External Relations
FIDIC	International Federation of Consulting Engineers
FINPYME	Innovative Financing for Small and Medium-Sized Enterprises
ICF	Institutional Capacity and Finance Sector
ICS	Institutional Capacity of State Division
IDB Group <sup>1</sup>	Inter-American Development Bank Group, Multilateral Investment Fund and Inter-American Investment Corporation
IFI	International Financial institutions
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
IRR	Integrity Risks Reviews
KNL	Knowledge and Learning Sector
LEG	Legal Department
MDB	Multilateral Development Bank
MIF	Multilateral Investment Fund
NGO	Non-governmental Organization
OCFC	Oversight Committee on Fraud and Corruption
OII	Office of Institutional Integrity
OLACEFS	Organization of Latin American and Caribbean Supreme Audit Institutions
OVE	Office of Evaluation and Oversight
PACI	Partnering Against Corruption Initiative (World Economic Forum)
PPMR	Project Performance Monitoring Report
SCL	Social Sector
SCL/SPH	Social Protection and Health Division
SEPA	Project Procurement Execution System
SME	Small and Medium-Sized Enterprise
VPC/GCM	Grants and Co-financing Management Unit
VPC/PDP	Operations Procurement Office

<sup>1</sup> The IDB Group is comprised of three institutions: the Inter-American Development Bank (IDB), the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF). The IDB and IIC are public international organizations. The MIF is a trust fund under the administration of the IDB. OII provides services, as described in this Report, to each of these three entities.

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# I. INTRODUCTION

In 2008, the Office of Institutional Integrity (OII) entered its fifth year of operation. OII, an independent unit of the Inter-American Development Bank Group (IDB or Bank Group),<sup>2</sup> was created in 2004 as part of the Office of the President, to whom it directly reports.

OII plays a key role in the Bank Group's integrity programs with primary responsibility for both investigation and prevention of fraud and corruption throughout Bank Group-financed activities.<sup>3</sup>

The Bank Group's integrity program is derived from its *Systemic Framework against Corruption for the Inter-American Development Bank*, a plan adopted by the Bank's Board in 2001. This framework is based on three distinct, but closely-related, areas:

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

Although OII works in all three areas, its principal function is to help the Bank Group ensure that the activities it finances are protected from fraudulent or corrupt practices. OII's resources are mainly utilized to investigate allegations of fraud and corruption in Bank Group-financed activities and to develop outreach and preventive programs.

## 1. SUPPORTING INTERNAL ETHICS POLICIES & PRACTICES

OII's responsibilities for supporting internal integrity efforts have diminished in the past year. In 2007, the Bank created an

internal Ethics Office and hired an Ethics Officer. OII has continued to help with the Bank Group ethics' programs. OII has only investigated internal ethics cases at the specific request of the Ethics Officer or if the cases involved significant allegations of fraud or corruption.

## 2. PREVENTING FRAUD & CORRUPTION: A FIDUCIARY RESPONSIBILITY

OII's externally-focused efforts have increased. In the past year, the Office responded to an ever-growing number of inquiries related to fraud and corruption in Bank Group-financed activities and completed 150 investigations. The Sanctions Committee made final decisions on a series of cases submitted to it by OII through the Oversight Committee of Fraud and Corruption (OCFC), further expanding the list of sanctioned individuals and firms.

This was the second year in which the Bank Group made this list public. Disclosing sanctions is one of the mechanisms that reinforces the Bank Group's message that it will deal severely with those responsible for the misuse of funds and failure to comply with its anti-corruption policies.

As in previous years, OII improved the efficiency and effectiveness of its use of human, technological and knowledge-based resources in its investigative processes.

In 2008, there was also significant progress in the area of prevention. Following recommendations from the prior year, OII developed and implemented a new program entitled Integrity Risks Reviews (IRR) to provide strategic information that will reduce the likelihood of fraudulent and corrupt practices, and will ensure that lessons learned are applied to Bank Group operations.

OII made further refinements to the Red Flags Matrix developed with the Operations Procurement Office (VPC/PDP). This on-line preventive tool will help Bank staff with early detection of integrity risks in project design and execution.

<sup>2</sup> The Inter-American Development Bank is hereafter referred to as the IDB or the Bank.

<sup>3</sup> For a complete list of OII functions, visit: <http://www.iadb.org/integrity/mandate>.

### 3. SUPPORTING MEMBER COUNTRIES WITH THEIR INTEGRITY EFFORTS

OII continued to support the Institutional Capacity of State Division, part of the Institutional Capacity and Finance Sector (ICF/ICS). This division implements programs and activities in support of member-country initiatives to strengthen institutional capacity for the prevention of fraud and corruption, among other things. Particular attention was directed to identifying and implementing initiatives under the Anti-corruption Activities Trust Fund (AAF).

This Annual Report presents further information on OII's work in three strategic areas. [Chapter II: Interpreting Our Data](#) provides summary data and analysis of consultations, allegations, investigations and outcomes; [Chapter III: Investigation](#) offers a sample of the allegations investigated by OII in 2008; and [Chapter IV: Prevention](#) addresses OII's various preventive activities for the year.

The Report also highlights OII's collaborative work with other international organizations with the goal of defining, harmonizing and analyzing common frameworks for anti-corruption activities as described in [Chapter V: International Collaboration and Partnerships](#).

Finally, [Chapter VI: Next Steps](#) addresses the two external reviews of the Bank's integrity programs that were conducted in 2008. One of these concerned the Bank's overall "Anti-corruption Framework." It recommends improvements to the Sanctions Process, responsibilities of the OCFC, and the functions of OII.<sup>4</sup> The second review focuses on the Bank Group's "Private Sector Integrity Framework." To help understand OII's plans for 2009 and beyond, this Chapter offers an overview of the issues and priorities that the Office will focus on during the coming months.



Bolivia.Illimani (Source: Hernán Charosky)

<sup>4</sup> This publication is located at <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1824265>.

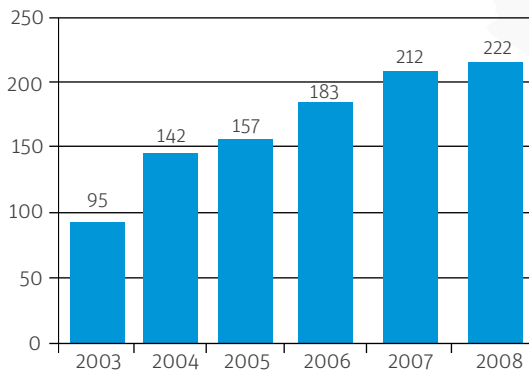
## II. INTERPRETING OUR DATA

OII's functions include providing information on the results of its investigative activities. This section contains summary data on the inquiries and allegations received in 2008, comparative information with previous years, a summary of the case flow — from the inquiry stage to resolution — and resulting sanctions, among other data.

### Inquiries: Consultations and Allegations

In 2008, OII received 222 inquiries, of which 122 were classified as allegations and 100 were classified as consultations.

**FIGURE 1. TOTAL INQUIRIES RECEIVED 2003-2008**

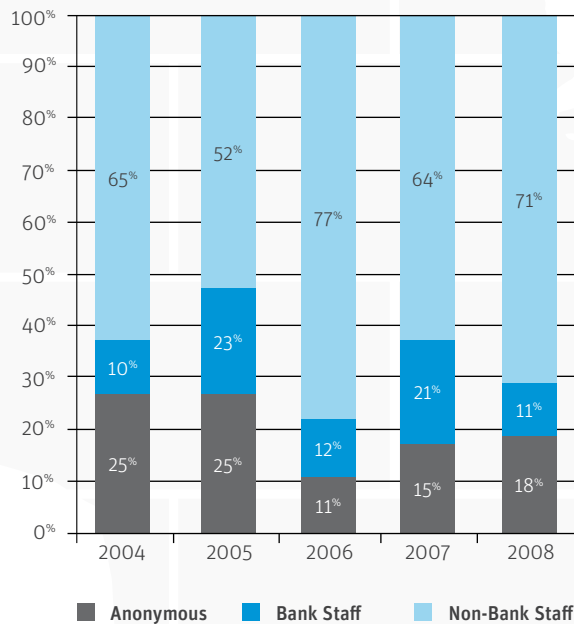


The continued growth in consultations indicates that OII is recognized as a resource in preventing fraud and corruption. The increase in the number of allegations and consultations may in part be a reflection of the success of OII's outreach activities as well as, perhaps, the public nature of the Bank Group's sanctions' list.

### Who Made New Allegations

In 2008, 18% of the new allegations were made anonymously; 71% were made by third parties; and the remaining 11% came from Bank Group staff.

**FIGURE 2. SOURCE OF ALLEGATIONS 2004-2008**





### CONFIDENTIALITY OF THE INVESTIGATIVE PROCESS<sup>5</sup>

The Inter-American Development Bank's provisions to guard confidentiality in investigations include:

- » The Bank Group protects the confidentiality of complainants.
- » All staff involved in an investigative process are obligated to preserve and protect the confidentiality of the subject, the witnesses and all other parties concerned.
- » Any staff member who compromises the confidentiality of a complainant is subject to disciplinary action.
- » The Bank Group accepts anonymous allegations.

### PROTECTION FOR WHISTLEBLOWERS AND WITNESSES

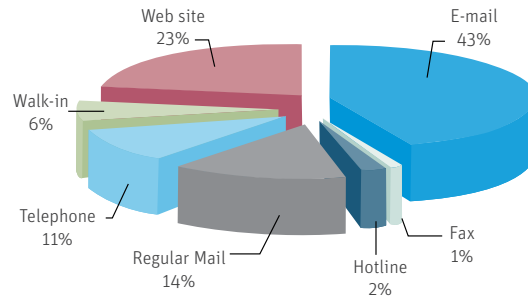
Maintaining the integrity of the Bank's administration and operations, including the Bank Group's systems for administrative investigations and resolution of disputes, requires the active support of all Bank employees.

To ensure that the staff has every confidence that they can come forward without repercussion, the Bank has a Staff Rule entitled *Protection for Whistleblowers and Witnesses* that prohibits reprisal against a staff member for having submitted a complaint or participated in an investigation.

## How New Allegations Were Submitted

OII has multiple ways in which interested parties may submit inquiries related to potential issues of fraud and corruption. As described in **figure 3A**, these include: e-mail, Web site, regular mail, walk-in, telephone, fax, and hotline.<sup>6</sup>

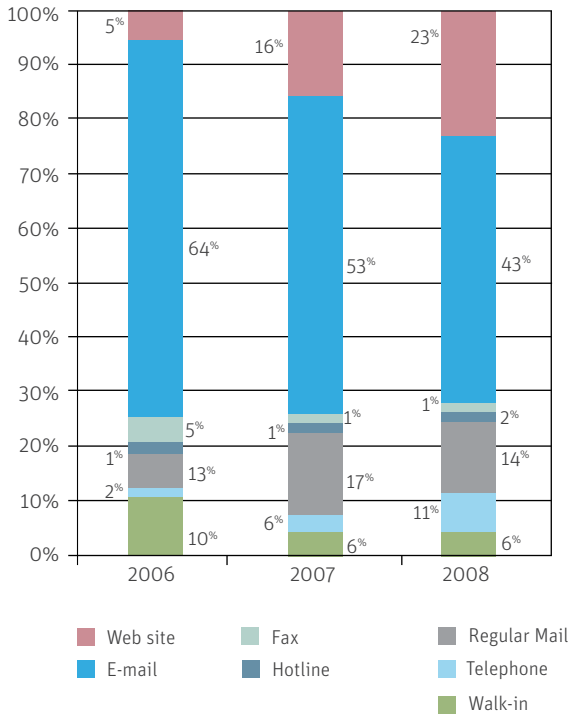
**FIGURE 3A. HOW ALLEGATIONS WERE SUBMITTED 2008**



<sup>5</sup> Confidentiality generally means that the distribution of information shall be limited to those Bank officers who require knowledge of a matter in the performance of their official functions. The sharing of information is subject to the Bank's internal policies and procedures, including the Bank's policies on the disclosure of information. Persons dealing with the Office of Institutional Integrity are free to ask any questions regarding the treatment of information they may provide.

<sup>6</sup> Information on how to contact OII is provided on page 29.

**FIGURE 3B. HOW ALLEGATIONS WERE SUBMITTED 2006-2008**



In 2008, as in previous years, online (electronic) methods for contacting OII were the most common, at 66% of the total allegations.

### External versus Internal Allegations

Allegations are classified as **external** when they are related to issues of fraud or corruption but do not involve Bank Group staff, and **internal** if they involve Bank Group staff, whether for fraud and corruption or for violations of the Code of Ethics and Professional Conduct.

When the allegations concern misconduct on the part of Bank staff, the Ethics Officer is responsible for the case. If the Ethics Officer deems it appropriate, she may request that OII conduct an investigation into the allegation of misconduct and present its findings.

Some internal allegations are not related to misconduct, but other types of conduct that may be related to an administrative or employment regulation. These cases are typically referred to the Human Resources Department or the appropriate management unit.

In 2008, 81% of the allegations received by OII were classified as external and the rest as internal cases. The next figure shows the percentage of internal and external allegations received in 2008.

**FIGURE 4. EXTERNAL VERSUS INTERNAL ALLEGATIONS 2004-2008**



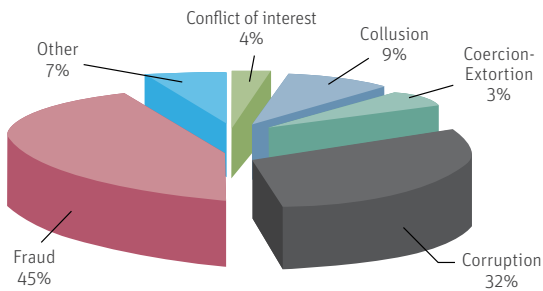
## Types of External Allegations Investigated

The external investigations that fell under OII's jurisdiction in 2008, as in previous years, represented a variety of prohibited activities, although fraud and corruption continue to be the most frequent violations, at a combined 77% of the total.

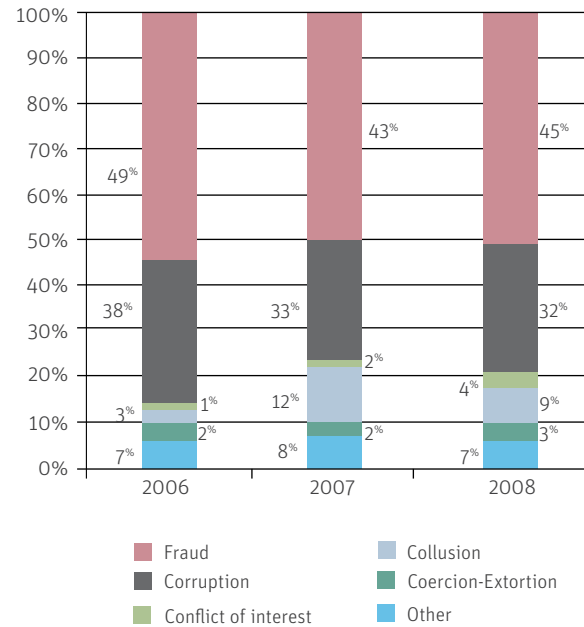
It is important to note that the initial classification of allegations by OII is based on the preliminary information in the allegation. Over the course of an investigation, as more information about the case becomes known, OII may modify the classification. Eventually, a single case may represent more than one type of violation.

The next two charts show the types of allegations investigated in 2008 (figure 5A) and compares them historically over the past two years (figure 5B).

**FIGURE 5A. TYPES OF EXTERNAL ALLEGATIONS INVESTIGATED 2008**



**FIGURE 5B. TYPES OF EXTERNAL ALLEGATIONS INVESTIGATED 2006-2008**



## External and Internal Cases Completed in 2008

OII began 2008 with 93 pending external and 4 internal cases, and over the year OII opened 122 new cases. At the same time, OII completed 150 investigations – leaving 69 active cases open as of December 31. Of the cases completed in 2008, 44 were closed at the preliminary stage (pre-investigation) and 106 after a full investigation. Twenty cases included a recommendation to commence sanctions proceedings.

A total of 22 cases in 2008 were internal and were referred to the Ethics Officer. Of these, the Ethics Officer asked OII to investigate 11 and the remaining were deemed closed. Of the 11 cases investigated, nine were completed and two are still pending. This constitutes a 31% reduction from the 16 internal cases investigated in 2007.

**TABLE 1. ACTIVE CASES IN 2008**

	Internal	External	Total
Cases pending from previous year	4	93	97
New cases	22	100	122
Total active cases	26	193	219
Cases completed	(24)	(126)	(150)
Cases pending at year's end	2	67	69

**TABLE 2. CASE FLOW 2003-2008**

	2003	2004	2005	2006	2007	2008
Cases pending from previous year	37	67	117	111	123	97
New cases	95	142	138	149	136	122
Total active cases	132	209	255	260	259	219
Cases completed	(65)	(92)	(144)	(137)	(162)	(150)
Cases pending at year's end	67	117	111	123	97	69

## Case Results

OII closed 29% of the cases at the preliminary stage; the rest proceeded to a full investigation. There are three outcomes in a full investigation: substantiated, unsubstantiated, and unfounded, as explained below:

### WHAT DOES IT MEAN IF A CASE IS SUBSTANTIATED, UNSUBSTANTIATED OR UNFOUNDED?

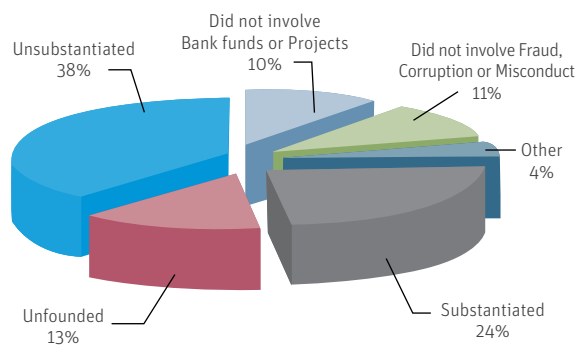
At the end of an investigation, OII classifies a case as substantiated, unsubstantiated or unfounded. A case is determined to be:

- » Substantiated when the evidence sufficiently supports the allegation that a fraudulent or corrupt practice, as defined by the Bank Group, has occurred;
- » Unsubstantiated when the evidence is insufficient either to confirm or deny the original allegation; and
- » Unfounded when the allegations are determined to be untrue.

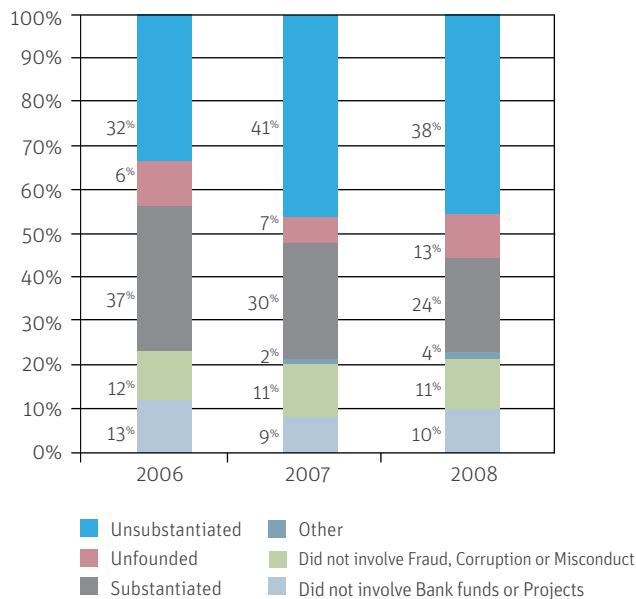
Of the nine completed internal cases that were subject to a full investigation, six were substantiated, while two were unsubstantiated and one case was unfounded.

Figure 6A describes the results of 126 external investigations completed by OII (including cases resolved by preliminary inquiry and those that were fully investigated), with 24% of the cases investigated in 2008 resulting in substantiated allegations.

**FIGURE 6A. OUTCOME OF INVESTIGATIONS 2008**

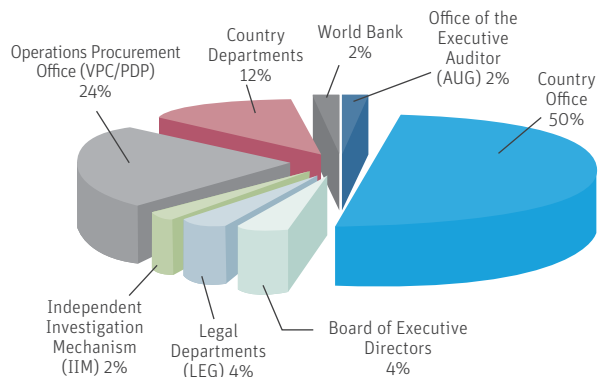


**FIGURE 6B. OUTCOME OF INVESTIGATIONS 2006-2008**



Even when the outcome of the investigation shows that the allegations were unfounded or unsubstantiated, the evidence collected is analyzed by the prevention area to identify integrity risks and provide lessons learned to other Bank departments. This process is described in detail in Chapter IV. Roughly 50% of the reports involving unfounded or unsubstantiated cases were referred to different units within the Bank or to outside agencies, as shown in figure 7.

**FIGURE 7. REFERRALS FOR UNFOUNDED OR UNSUBSTANTIATED ALLEGATIONS 2008**



## Sanctions

In cases that are substantiated, OII may recommend that the OCFC forward the case to the Bank’s Sanctions Committee. The Sanctions Committee and in some cases the OCFC<sup>7</sup> will determine whether or not a company or individual has been involved in acts of fraud, corruption, collusion or coercion,<sup>8</sup> and whether it will be subjected to administrative sanctions, which range from letters of reprimand to permanent debarments.

Before making a decision on whether to impose a sanction, the Sanctions Committee notifies the subject of the investigation and provides the firm or individual with an opportunity to respond to the charges with all relevant information within a set period of time.

Debarred companies and individuals are ineligible to participate in Bank Group-financed contracts. Debarments may be permanent or temporary. Other sanctions may also be imposed, such as a reprimand or perhaps specific conditions may be established for future contracts. Sanctioned entities are listed publicly on the Bank’s Web site.<sup>9</sup>

7 The Sanctions Committee has jurisdiction over all cases involving bidders, suppliers, contractors, or consultants who are alleged to have engaged in fraud or corruption in connection with a Bank-financed project. The OCFC has jurisdiction over all other cases. Both Committees follow the Sanctions Procedures to adjudicate cases. See Annex II for further overview of the investigations process. For a deeper understanding of the investigative and sanctions processes, please visit OII Web site: [www.iadb.org/oii](http://www.iadb.org/oii).

8 These definitions are found in Annex I.

9 <http://www.iadb.org/integrity/SanctionList.cfm>.

The Bank has no authority to investigate public officials or violations of local laws. In those instances where there may be a possible violation of national laws, the Bank's President may direct that the results of an investigation be sent to national authorities.

### Sanctions and other Activities after Investigations: Update on Cases Included in Annual Report 2007

In the 2007 Annual Report, 14 of the cases described in **Chapter III: Investigative Cases and Outcomes 2007**, were pending resolution — one under the jurisdiction of the OCFC and the rest under the Sanctions Committee. Of those 14 cases, in 2008 the OCFC imposed a sanction on one individual and the Sanctions Committee resolved three cases in which sanctions were imposed on 11 individuals and five companies, ranging from letters of reprimand to debarment.

### Sanctions Cases 2008

In 2008, sanctions were imposed on a total of 33 companies and individuals, as shown below. At the end of the year, 21 cases were pending before the Sanctions Committee.

**TABLE 3. SANCTIONS IMPOSED IN 2008**

Type of Sanction	Length of Sanction	Individuals	Firms
Letter of Reprimand	1 month	3	1
	1 year	4	2
Debarment	1 year	2	1
	2 years	2	
	3 years	3	3
	4 years	4	1
	5 years	4	
	10 years	3	
	Total	25	8

## III. INVESTIGATION

OII is, as mentioned earlier, responsible for all investigations related to fraud and corruption in Bank Group-financed activities. The Office follows the Principles and Guidelines for Investigations<sup>10</sup> that were developed and endorsed by leading International Financial Institutions (IFI). If a firm or an individual is found to have violated the Bank's anti-corruption policy, OII may recommend to the OCFC that a Notice of Administrative Action be prepared and submitted to the Sanctions Committee, which may, in turn, suspend the respondent's eligibility to work on a Bank Group-financed project. A detailed chart describing the investigation process is presented in Annex II.

### Cases and Outcomes

As delineated in Chapter II, external cases comprised 81% of the cases investigated in 2008, with fraud and corruption as the leading allegations. Cases often involve more than one violation. Other violations include embezzlement, bribery, misrepresentation of qualifications, conflict of interest and manipulation of the bid process. Below is a sampling of some of the cases investigated in 2008.<sup>11</sup>

### Fraud and Extortion

#### FALSIFIED REQUESTS FOR REIMBURSEMENT

An anonymous source provided information that a company in a Bank Group-financed project was invoicing the Executing Agency (EA) for reimbursement of employee salaries that exceeded what they were really paying their employees.

At first, company representatives denied these facts; however, a review by OII of the disbursement requests, invoices, checks and the company's list of payments showed otherwise. The respondents had in fact submitted fraudulent documentation concerning reimbursement for wages and salaries. The company and its representatives not only tried to overcharge the EA for amounts paid to project staff, but they also made the staff sign receipts for amounts greater than what they actually received.

After presenting the evidence, the respondents admitted the fraudulent charges.

*Outcome: A Notice of Administrative Action was issued and the company was temporarily suspended from participating in Bank-financed activities pending completion of sanctions proceedings. The value of the contract signed by the EA and the firm was US\$ 269,219.*

#### CONTRACTS AWARDED TO A FICTITIOUS COMPANY

An EA conducted three bidding processes using a price-comparison method, and invited four, supposedly independent, firms to submit price quotes. At the end of the bidding process, three contracts were awarded to the same company.

The investigation determined that of the four bids, two had been submitted by the winning company, which had used a different name for one of the bids; one came from a fictitious applicant that had "borrowed" the name of an existing company; and the last was from a company that could not be located. A detailed analysis showed that the four bids contained the exact same typographical errors, indicating that they had been prepared by the same person. Additionally, none of the bids — other than that of the winning company — provided the name of a representative, a corporate address or any other reliable contact information.

*Outcome: A Notice of Administrative Action was issued and forwarded to the Sanctions Committee. The value of the contracts awarded to the one company was US\$ 155,924.*

<sup>10</sup> <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=832313>.

<sup>11</sup> Internal cases are the responsibility of the Ethics Office (EO). However, the EO may request OII's assistance for an investigation when it believes it is necessary. For more information on internal cases referred to the annual report of the EO.

## NONPROFIT BENEFICIARY INVOLVED IN FRAUDULENT PRACTICES

An allegation claimed that a beneficiary of two technical cooperation agreements was systematically withholding a percentage of its consultants' salaries. While the consultants issued invoices for the total amounts due, they received reduced payments with receipts for "donations" of the missing amounts made out to the beneficiary.

*Outcome: The investigation revealed that the "donations" were not voluntary, but instead constituted an unavoidable condition of employment for the consultants. A Notice of Administrative Action was issued. The value of the technical cooperation agreements was US\$ 600,000.*

## Conflict of Interest and Manipulating Bid Documents

### SUBMISSION OF OFFERS WITH CONFIDENTIAL INFORMATION OBTAINED INAPPROPRIATELY

Two companies submitted proposals to the EA that included confidential information with the precise financial value of bid elements. This information had been improperly obtained by these companies, in clear violation of the confidentiality of the bidding process.

The investigation revealed that the two companies had photocopied the confidential information, and included the exact amounts of a price list in their financial proposals. Early detection mechanisms employed by the EA revealed the attempted fraud, and the case was referred to OII.

*Outcome: A Notice of Administrative Action was issued and forwarded to the Sanctions Committee. The value of those contracts was US\$ 966,335.*

## Collusion

### CONTRACTORS PAID IN ADVANCE THEN CANCELLED CONTRACTS

Three firms were awarded contracts by an EA, all for the same project, but the companies cancelled their contracts shortly after receiving advance payments for the work. The companies claimed that the EA had delayed in obtaining the required municipal work permits and in designating inspectors. These companies also maintained that there were design changes that would affect the deadlines for completion, and that they had not received financial compensation for the cost increases related to the work delays. The three firms filed for arbitration.

OII verified that a businessman, who neither had a formal title at any of the companies nor any related, tangible financial interest, was acting as the representative of all three companies. OII also determined that this businessman did have financial interests in common with the arbitrator selected by the EA, casting doubt on the impartiality of the arbitration process and indicating the possibility of fraudulent behavior, but the evidence was not conclusive.

The fact that the companies cancelled their contracts after receiving advance payment for the work could indicate that the firms likely had no intention of fulfilling the contract. Ultimately, however, the EA admitted partial responsibility for the events.

*Outcome: After OII's investigation, one of the firms came to an agreement with the EA to complete the work. The details of the investigation were forwarded to the COF and the management of the Country Department. The value of the three contracts was US\$ 8,593,929.*



## Misrepresentation of Qualifications

### FRAUDULENT CURRICULA VITAE

A company submitted a bid for a consulting contract that contained three Curricula Vitae (CVs) for consultants who would be performing work under the contract. The consultants later filed complaints to the effect that the information in their CVs had been modified by the company, exaggerating their experience to obtain additional points in the evaluation. The company had indeed won the contract based on the higher score generated by the altered CVs.

OII interviewed the consultants who confirmed that the information in their CVs was false.

*Outcome: A Notice of Administrative Action was issued against the company and its legal representative, who had submitted the false information. The Sanctions Committee has debarred both for three years. The value of the contract awarded to the company was US\$ 116,389.*

### FORGED CERTIFICATES

A COF forwarded to OII a letter from an EA indicating that a consulting company had submitted a forged certificate regarding successful completion of a project that it had included on its qualifications. The submission was part of the expression of interest by the firm for a project under public bidding.

OII confirmed that the certificate in question, as well as other certificates submitted by the firm, had been falsified. All the certificates had been issued by government agencies, but the essential information, such as the names of the participants in the project, the work performed, and any penalties imposed on the company, had been forged. The government agencies that had issued the original certificates provided copies of these to OII, and investigators confirmed that the documents submitted by the bidder had been altered.

*Outcome: A Notice of Administrative Action was issued and forwarded to the Sanctions Committee. The total value of the five different contracts was US\$ 435,017.*

## FALSIFICATION OF DOCUMENTS TO WIN A CONTRACT

As part of a Bank-financed project, an EA conducted various selection proceedings for the purchase of agricultural materials at the end of which a total of 17 contracts were awarded to a single company.

The investigation process revealed evidence that the contract bidding process had been manipulated. OII discovered a series of falsified bids, forged signatures on bids, bids from phony companies, bids from companies owned by the same individual, bids from companies that were not registered on the tax rolls, and bids from companies whose legal representatives could not be found.

*Outcome: Despite these facts, the evidence was insufficient to prove that the company that had been awarded all the contracts had participated in the fraudulent practices. OII drafted recommendations to the Bank Group operational areas involved in order to reduce the risk of the recurrence of such fraudulent practices in future projects with similar bidding processes. The total value of the 17 contracts was US\$ 701,319.*

## Bribery

### ATTEMPTED BRIBERY

A COF forwarded a complaint to OII about a contractor on a project financed by the Bank. The contractor had allegedly made a deposit into the personal bank account of the program director at the EA.

After OII's investigation, the contractor declared that the deposit had been made to the program director's account because the director had threatened to delay the project if he did not receive the funds from the contractor. The program-director admitted to the deposit being made into his account, but he claimed that he had not been aware of it. The director asserted that the contractor had filed a bribery complaint after receiving very poor performance evaluations from the director for his work on the project.

*Outcome: The EA removed the program director from his post. A Notice of Administrative Action was issued and forwarded to the Sanctions Committee. The value of the contract was US\$ 268,973.*

### **A CARTEL ESTABLISHES CONTRACT PRICES AND ORGANIZES FRAUDULENT BIDS AND BRIBES**

OII initiated an investigation of allegations that a group of construction companies had organized a cartel for bidding on Bank-financed contracts at inflated prices, while presenting it as a legitimate competition. The investigation confirmed the existence of cartel activities as well as regular demands for the payment of bribes from the cartel by municipal officials; the awarding of contracts prior to the beginning of the bidding process; the centralization of bids, with contract pricing determined by cartel leaders; and fraudulent disqualification of bidders that were not cartel members.

A systematic review of Bank documents revealed further evidence of additional coordination between cartel bidders. This included bids with prices that were inflated when compared with market conditions; the submission of rigged bids for government-procurement contracts, designed to reflect an appearance of competitive values; false information in the bid documents; and the rotation of bids among the cartel members.

*Outcome: A Notice of Administrative Action was issued and forwarded to the Sanctions Committee. The Bank loan in question was valued at approximately US\$ 56 million. OII estimates that the value of the misappropriated funds is in excess of US\$ 2,000,000.*

## **Bidders' Attempts to Manipulate Outcomes**

### **COLLUSION AND FALSIFICATION**

Public officials and consultants working in an EA responsible for increasing transparency in government acquisitions agreed to manipulate two hiring processes. In one case, the applicants pretended to have specific qualifications by coordinating the content of their respective CVs, and the winning bidder lied about its experience. In the other case, the winning bidder submitted background information on two colleagues who did not want to participate in the competitive bidding, and the bidder forged their signatures. In both cases, the EA's evaluation committee claimed, falsely, that they had interviewed all applicants.

*Outcome: A Notice of Administrative Action was issued and forwarded to the Sanctions Committee. The total value of the two contracts was US\$ 49,262.*

## IV. PREVENTION

In 2008, OII made significant progress in enhancing the Bank's efforts to prevent fraud and corruption. Prevention is defined as the ability to use information to improve the Bank Group's knowledge regarding prohibited practices, deter misconduct and enhance policies, mechanisms and operations to prevent integrity risks within Bank Group financed activities.

In line with recommendations from its own case-review process, OII's prevention area invested its resources in the analysis and development of preventive measures based on the specific needs of different regions and sectors within the Bank Group. Some of the major achievements for the year included the development of the Integrity Risks Reviews (IRR) program; enhancements to the Red Flags Matrix, developed jointly with VPC/PDP; and expanded support to private-sector operations within the Bank Group.

### Integrity Risks Reviews (IRR)

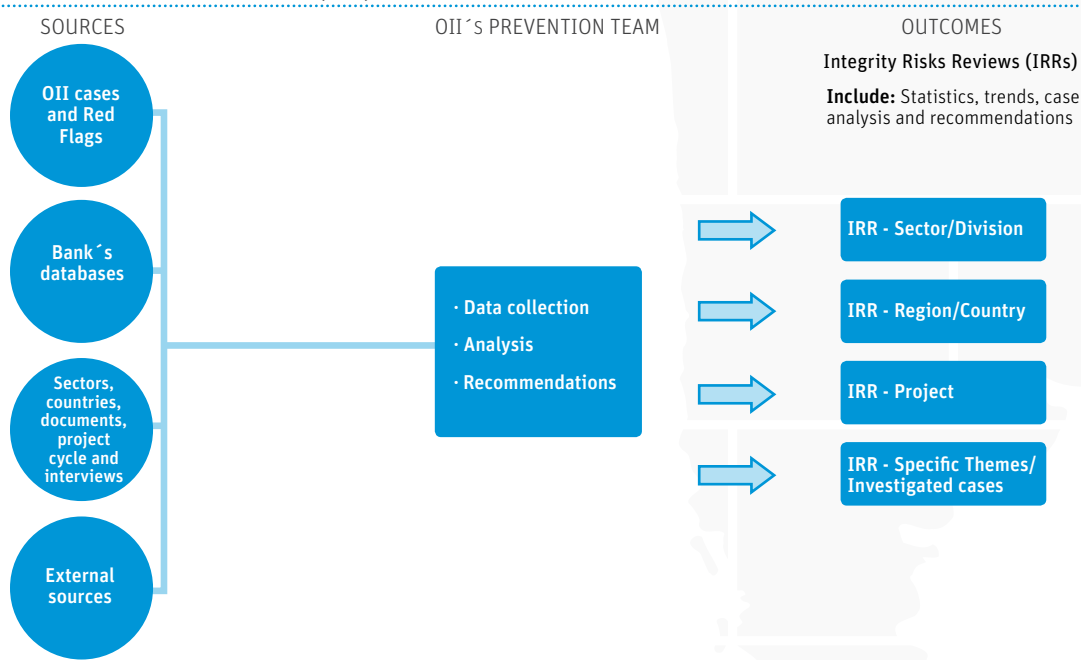
In 2008, OII launched a new process that begins with the analysis of information gathered from allegations and investigations, which is combined with other relevant sources of information to create Integrity Risks Reviews.

The main sources of information to conduct these reviews include:

- » Inquiries, consultations, allegations, and cases investigated by OII.
- » Documents from the project cycle preparation and execution, including the Project Performance Monitoring Reports (PPMR).
- » Reports and documents from the Office of the Executive Auditor (AUG) and the Office of Evaluation and Oversight (OVE).
- » Reports from external audits of Bank projects.
- » Reports from National Oversight Agencies.
- » Key interviews of both Bank staff and that of Executing Agencies.

The IRR includes both analytical information and the identification of risks and recommendations on how to mitigate or prevent those risks. The diagram below explains the IRR process.

**DIAGRAM 1. INTEGRITY RISKS REVIEWS (IRR) PROCESS**



In 2008, the prevention area produced two Integrity Risks Reviews, one at the request of the Social Sector (SCL) and one for a Country Department, with specific focus on Bolivia. The Knowledge and Learning Sector (KNL) provided critical support for these activities through financing, advice and evaluation of the IRR's training components.

To respond to the demand from SCL, an IRR was prepared containing a full review of the allegations and investigations received by OII for that sector. SCL also requested that OII staff provide support to a project team to incorporate fraud and corruption prevention measures at the project-design stage.

At the request of Country Department Andean Group (CAN), the Office carried out an analysis of integrity risks for the region and conducted a similar analysis specifically for Bolivia. In each case, the reviews included detailed presentations to the officials of the sector and the region.

By the end of 2008, OII had received a request from an additional country. In 2009, OII plans to provide this type of analysis to other sectors and regions.

## Support for Sectors and Country Departments

### SOCIAL SECTOR

OII's support for SCL started as a partnership with the Social Protection and Health Division (SPH). In 2007, OII and SCL joined forces with Transparency International to edit, publish and distribute in Spanish, *Informe Global de la Corrupción: Corrupción y Salud (2006)* [Global Corruption Report: Corruption and Health (2006)].

At the beginning of 2008, a technical workshop to present the report was organized by OII and SCL in conjunction with the Institutional Capacity of State Division (ICF/ICS). The workshop convened sector specialists, experts in health and in corruption, and various civil-society groups that monitor public-sector accountability. The meeting led to a broad dialogue on common types of corrupt practices as well as discussion of strategies to identify and mitigate such practices.

Key outcomes of the workshop included identification of the:

- » Most common types of corrupt practices, based on cases investigated by OII, such as falsification of professional qualifications, manipulation of the selection process for consultants, fraud in contract performance, diversion and misappropriation of funds, and intimidation of complainants and witnesses.
- » Sources of information to develop early warnings and the establishment of data-gathering practices to increase early detection.
- » Best practices across public-sector agencies, civil-society groups and professional organizations that lead to improved transparency in the execution of health-sector projects.

At the request of SCL, OII prepared an IRR for its three divisions: Social Protection/Health, Education, and Science and Technology.

The review helped to single out frequent types of fraud and corruption, including those already identified in the workshop. The results of this IRR were made available to staff from SCL at HQ as well as in Country Offices (COFs).

SCL then asked OII to provide support to one of its teams that was working on the preparation phase of a specific health program. OII contributed to the project preparation with recommendations to prevent some of the most common fraudulent and corrupt practices to ensure transparency, while maintaining cost effectiveness for the project.

Some of the recommendations proposed include:

- » Better use of public-information tools to increase citizen monitoring of procurement activities (publicizing the terms of reference, selection processes, circulating information among professional associations and citizens).
- » Enhanced information exchange between the executing agency, the project team and OII on early warnings and red flags.
- » Improved efficiency in the project's audit and evaluation, including execution milestones and expected results.

## COUNTRY DEPARTMENT ANDEAN GROUP (CAN)

During the second half of 2008, CAN, the EO and OII undertook a joint project to increase the capacity of COFs and EAs in the identification and prevention of integrity risks. This work resulted in OII's second IRR.

The main goals of the initiative were:

- » Increase awareness among staff as to the magnitude and characteristics of fraud and corruption in Bank Group-financed activities in the Andean Region as a whole and later in Bolivia in particular, as well as increase awareness on issues related to staff conduct.
- » Provide information on the types of cases investigated by the EO and OII, as well as the main lessons learned from these cases and how staff should react to other indicators of integrity risks.
- » Establish a work routine between the EO, OII and CAN to facilitate preventive activities.

Drawing on OII's and EO's databases of allegations and investigations in the Andean Region, the initial IRR covered all five countries. Its main findings and recommendations were then presented to staff at both HQ and COFs, followed by a question-and-answer period.

Once OII presented CAN with a region-wide IRR, a second, more in-depth IRR for Bolivia was prepared. CAN, VPC/PDP, OII and EO put together a team that worked closely with COF staff to prepare and deliver an in-country workshop. The presentation combined a full day of training to deliver the results of the IRR, and strategies and practices to help prevent the identified risks.

The IRR identified the most common factors that contribute to the fraudulent practices and risks obtained from OII's country investigations:

- » Institutional weaknesses in the EAs.
  - Falsification of documents and qualifications in the selection process.
- » Weaknesses in the monitoring of projects due to minimal internal and external control, particularly in decentralized projects.

- » Manipulation of selection processes, unjustified increases in the scope of work and political pressure in hiring consultants.

In light of these findings, OII proposed the following preventive measures to be carried out in the immediate term in Bolivia:

- » Implementing and strengthening existing procedures to verify key documents in the procurement processes.
- » Strengthening mechanisms for consulting on issues of integrity or for reporting allegations by business, professional or civil-society organizations.
- » Enhancing visibility and availability of information about the Bank's procurement policies and its integrity provisions.
- » Improving dissemination of audit and evaluation results.
- » Increasing the capacity of EAs to identify and prevent integrity risks.
- » Increasing public awareness of the Bank's integrity rules.

## The Red Flags Matrix

In 2008, OII and VPC/PDP completed development of the Red Flags Matrix. This Matrix is an interactive tool designed primarily for Fiduciary Specialists to help them with early detection and prevention of fraudulent and corrupt practices in project procurement (**see diagram 2**).

The Red Flags Matrix was incorporated into the Bank Group's new project procurement database called the "*Procurement Plan Execution System*" (SEPA). A pilot presentation of the Matrix was provided to Fiduciary Specialists gathered at the Bank Group's fiduciary forum in the fourth quarter of 2008. It is scheduled to be launched in February 2009 in a select group of countries. The pilot phase will include a joint training program by VPC/PDP and OII.

## DIAGRAM 2. RED FLAGS MATRIX

Main > Procurement Plan Management > Training on Institutional Strengthening  
 Print : : Manual : : Glossary : : Calculator : : (\*) Required field

Last update: 11/07/2008 14:26:58

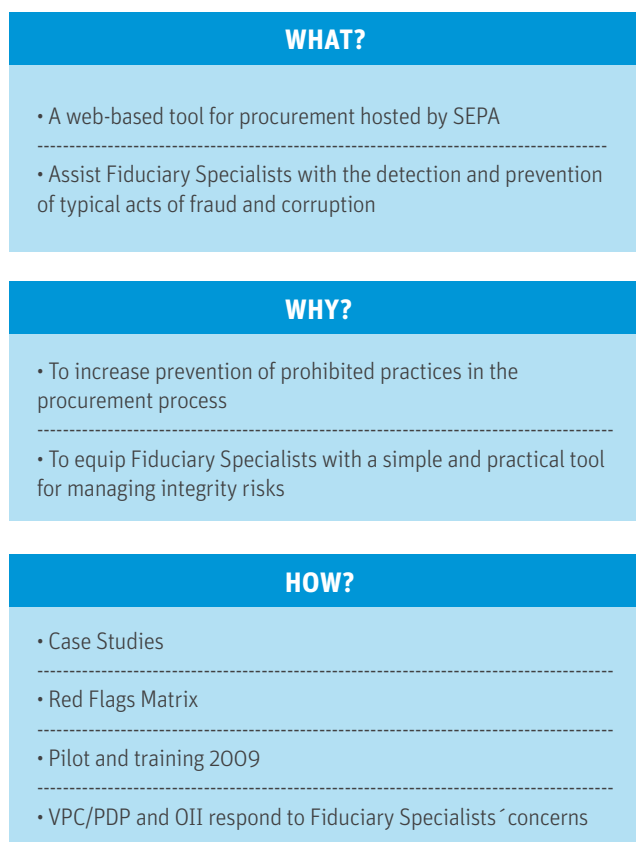
Information on Proceeding  
  Estimated and Actual Dates and Red Flags  
  Contracting Data  
  Amount

	Annual Training Plan (ATP)	No Objection to ATP	End of Activity
Estimate	<input type="text"/>	<input type="text"/>	<input type="text"/>
Updated Estimate	<input type="text"/>	<input type="text"/>	<input type="text"/>
Actual date	<input type="text"/>	<input type="text"/>	<input type="text"/>

Process Status:   
 Prior review?   
 If the Process does not require prior Bank review, enter "N/A" for the No Objection date

Code	Question	Yes/No	Risk	Notes (up to 200 characters)
<b>A. Preparation Phase</b>				
FA1	Are bidding documents being issued for a particular procurement process which was not included in the procurement plan?	<input type="text" value="Yes"/>	<input type="text" value="Low"/>	<input type="text"/>
FA2	Was the bid advertised for less time than required by procurement policies?	<input type="text" value="Yes"/>	<input type="text" value="Low"/>	<input type="text"/>
FA3	Was the specific procurement notice published in the wrong media?	<input type="text" value="Yes"/>	<input type="text" value="N/A"/>	<input type="text"/>
FA4	Did the specific procurement notice lack the requisite details?	<input type="text" value="Yes"/>	<input type="text" value="Low"/>	<input type="text"/>
FA5	Are there flaws in the structure of the request for proposals for bidding documents?	<input type="text" value="Yes"/>	<input type="text" value="N/A"/>	<input type="text"/>
FA6	Has any privileged information been released to the public or to a party not entitled to receive it?	<input type="text" value="Yes"/>	<input type="text" value="N/A"/>	<input type="text"/>
<b>B. Offer/Proposal Submission Phase</b>				
<b>C. Evaluation Phase</b>				

**DIAGRAM 3: RED FLAGS MATRIX. A NEW PREVENTIVE TOOL**



OII's objective is to release the Red Flags Matrix as a web-based, interactive instrument with online support that will facilitate the ability of Fiduciary Specialists to identify risk factors and to consult with VPC/PDP and OII on mitigating these risks before they develop further.

## Integrity in Private-Sector Operations

The Bank Group has several windows that provide private-sector financing, including the Structured and Corporate Financing Department, the Multilateral Investment Fund, the Opportunities for the Majority, and the Inter-American Investment Corporation. OII works closely with each of these units in the prevention of integrity risks within the Bank Group's Integrity Framework for Private Sector Operations. The Framework requires, among other obligations, that at the

outset of each potential transaction, investment officers identify potential integrity risks, including information related to politically-exposed persons, the identity of business owners who are potential customers, anti-money-laundering policies and procedures, and the adequacy of "know your customer" information when dealing with a financial institution. Any red flag identified through this due-diligence process is evaluated by the project teams and brought to the attention of OII for further review and, if necessary, additional fact finding. OII then works with the project teams to complete appropriate informational research, to find ways to mitigate or eliminate the identified risks and to ensure that the development objectives of the transaction can be achieved. This process also allows the Bank Group to identify and prevent any related reputational risks in these private-sector transactions.

Over the course of the year, OII was consulted on an increasing number of transactions, indicating a growing awareness of the importance of integrity in private-sector activities. This assistance activity has been supplemented with training, which OII is responsible for offering to investment officers to build their basic skills in the implementation of the Integrity Framework.

OII also worked closely with the IDB and IIC Legal Department to ensure that the documentation and structure of private-sector transactions are aligned with and satisfy the Bank Group's integrity requirements. Finally, the recommendations of the first external assessment of the Bank Group's Integrity Framework for the Private Sector are expected to be implemented in 2009.

## Other Activities

### ANTI-CORRUPTION ACTIVITIES TRUST FUND<sup>12</sup>

In March 2007, the IDB signed an agreement with Norway to establish the first Anti-corruption Activities Trust Fund (AAF). The primary objective of the AAF is to strengthen the institutional capacity of the Bank's borrowing member countries to prevent and control corruption by supporting the design and implementation of policies, mechanisms, and/or practices that promote access to information.

The AAF will provide 30 million Norwegian kroner (approximately US\$ 5 million) over a period of three years. The key areas covered by the Fund include: budget and public-records management; contracting and procurement procedures, financial institutions, extractive industries, political-campaign finance, the judicial system and the health sector.

Technical responsibility over the AAF resides within the Institutional Capacity of the State Division (ICF/ICS). OII participates, with ICF/ICS and the Grants and Co-financing Management Unit (VPC/GCM) in the AAF's Technical Review Committee, the entity responsible for selecting proposals submitted for consideration to the AAF. During 2008, the Committee reviewed more than fifteen expressions of interest for non-reimbursable technical-cooperation projects.

### ACTIVITIES WITH THE INTER-AMERICAN INVESTMENT CORPORATION (IIC) TO SUPPORT SMALL AND MEDIUM-SIZE ENTERPRISES (SMEs)<sup>13</sup>

In 2008, the IIC requested assistance from OII to create an integrity section in the Innovative Financing for Small and Medium-size Enterprises (FINPYME). FINPYME is "a diagnostic methodology developed to assess small and medium-size enterprises (SMEs) in order to help them become more competitive and improve their access to potential sources of financing."

FINPYME diagnostic reviews make it easier to identify factors that positively or negatively affect wealth and job creation or economic development through improved efficiency in SME management and productive processes or through optimization in the consolidation of corporate projects.

The integrity section in FINPYME is intended to gather data on key transparency and accountability issues that may affect SMEs. FINPYME is designed to couple the diagnostic results with technical assistance to improve the performance of individual firms.

In addition, IIC and OII have partnered to conceptualize a new SME-Focused Integrity program, in furtherance of IIC's Memorandum of Understanding with the World Economic Forum's Partnering against Corruption Initiative (PACI). The initiative is also being developed with the assistance of Transparency International. The objective is to create integrity-related instruments and capacity-building programs, specifically adapted to the needs of small and medium-size enterprises in Latin America, with the potential for use with SMEs throughout the world. The program will include training and tools to help develop, publicize and apply ethics and integrity in SMEs throughout the region, with the goal of creating a more reliable market environment.

## Communication

In 2008, the Office continued its efforts to expand outreach and communications regarding integrity. OII developed a plan to standardize its various outreach materials. OII promoted a greater awareness of the Bank Group's policies on integrity through organization of and support for publicity activities, such as training for Bank staff and participating in activities prepared by the Office of External Relations (EXR) to inform the business community about conditions for doing business with the IDB.

<sup>12</sup> <http://condc05.iadb.org/iadbtrustfunds/Funds>.

<sup>13</sup> <http://www.finpyme.org/>.



One of OII's communication products is this annual report, which is widely distributed to COFs, partners, EAs, project coordinators and other participants in the day-to-day administration of Bank Group-financed activities. In 2008, OII redesigned its outreach brochure and used this to help educate audiences about the Bank's integrity standards and activities, including the ways in which inquiries could be made. With widespread distribution of the brochure and an enhanced Web site, it is hoped that all potential business partners will be made aware of the Bank Group's commitment to integrity from the very beginning of any project cycle.

The scope of OII's outreach was extended through improved communications with local entities (for example, oversight organizations, civil societies, news media and business associations) including information about fraudulent or corrupt practices, or evidence related to allegations.

## THE OII WEB SITE

As stated in **Chapter II**, it is important to emphasize that 23% of the inquiries submitted in 2008 were received through the Web site — a large jump over 2007. Without a doubt, the Web site plays an important role in OII's preventive mission — allowing interested parties easy access to information regarding integrity, fraud and corruption. Currently, the Web site includes the annual reports, the names of sanctioned firms and individuals, and information on the investigative and sanctions procedures. The site will be revised and updated in 2009.

## V. INTERNATIONAL COLLABORATION AND PARTNERSHIP ACTIVITIES

OII continued working with integrity offices at other multilateral development banks and associations to harmonize and improve integrity programs by sharing best practices.

### Activities with Multilateral Development Banks (MDBs)

OII organized a series of meetings in 2008 with MDBs to share information and best practices and to promote a better understanding of the Bank Group's external and internal integrity policies.

During the first quarter, OII hosted a meeting with sub-regional development banks in Latin America, including the Central American Bank for Economic Integration (BCIE) and the Corporación Andina de Fomento (CAF). This meeting helped build mutual awareness of respective integrity policies, their internal and external impacts and best practices as applied to private and public-sector fiduciary activities.

Given the success of these exchanges, the IDB, together with the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank and the World Bank, organized a second, similar meeting among sub-regional development banks worldwide. The IDB acted as an organizer and hosted the meeting.

Fourteen sub-regional MDBs from the Americas, Europe, Africa, Asia, and the Middle East met at IDB headquarters to discuss some of the key challenges in implementing integrity policies. The discussions were framed within the Uniform Framework for Preventing and Combating Fraud and Corruption, adopted by several of the international financial institutions, including the IDB Group. The Uniform Framework promotes harmonization, mechanisms for exchanging information and developing joint educational and training courses.

Over the year, OII recognized the importance of exploring additional ways to strengthen ongoing anti-corruption harmonization efforts among multilateral development banks. To achieve this, OII participated in several meetings to analyze other possible areas of mutual interest including a mandatory requirement for bidders and providers on Bank Group-financed projects to divulge any sanctions imposed by other multilateral development banks or national authorities, and the exchange of information on fraud and corruption.

### Bank Group Partnerships

#### IDB FIDUCIARY FORUM

OII participated in the Second Fiduciary Forum with VPC/PDP, which was attended by Fiduciary Specialists from throughout the Bank. OII and VPC/PDP unveiled the Red Flags Matrix and briefed attendees on how this tool will be implemented and utilized. OII shared relevant experiences about fraud and corruption with these specialists.

#### INSTITUTIONAL CAPACITY OF STATE DIVISION

The Institutional Capacity of State Division is the unit responsible for leading Bank support to countries for developing public sector institutional capacity, including strengthening governance and transparency and combating corruption. To support member countries' programs and activities against fraud and corruption, OII assisted ICF/ICS project teams in preparing and updating a series of technical cooperation agreements intended to implement anti-corruption conventions in the countries of the region.

OII also worked with the ICF/ICS team that drafted the cooperation plan to support the "Latin American Regional Conference: Commitment and Cooperation in the Fight against Corruption and International Bribery," organized by the government of Mexico. This conference addressed advances and challenges related to the compliance of Conventions. ICF/ICS and OII provided detailed information on the ways in which the Bank Group supports strategies against corruption in member countries.

## **JOINT ACTIVITIES WITH THE OFFICE OF THE EXECUTIVE AUDITOR (AUG)**

To promote an exchange of ideas, experiences and challenges about government and risk-management auditing, OII worked in coordination with AUG on a variety of different activities. In addition, OII, AUG, OVE, and the EO formed an ad-hoc committee to discuss common issues and exchange information on matters related to governance and integrity.

## **Other International Collaborations**

### **VIII ASSEMBLY OF THE LATIN AMERICAN AND THE CARIBBEAN ORGANIZATION OF SUPREME AUDIT INSTITUTIONS**

The heads of the Supreme Audit Institutions from throughout Latin America and the Caribbean, at a meeting organized by AUG, discussed with OII and others the most relevant issues related to their mandates and work programs. Information on best practices, cases and reports was also shared and exchanged.

### **INTERNATIONAL FEDERATION OF CONSULTING ENGINEERS CONFERENCE ON PREVENTING FRAUD AND CORRUPTION**

The IDB, the World Bank and the International Federation of Consulting Engineers (FIDIC) organized a two-day training course on preventing fraud and corruption and the related links to preventing environmental damage in development projects financed by multilateral banks.

During the training, OII and VPC/PDP's presentation introduced a series of interactive, practical cases. Attendees included staff and consultants from MDBs and members of civil organizations, who were able to interact and resolve situations based on real cases.

Building on these joint efforts, the Chief of OII participated in the FIDIC annual conference, providing the full membership with an overview of the Bank Groups integrity framework. The presentation was followed by an open discussion on how the consulting engineering community could join forces with the Bank to promote integrity.

## **INTERNATIONAL INVESTIGATORS CONFERENCE**

OII chaired a discussion on advancing harmonization among multilateral development banks into the broader community of international financial institutions and the United Nations, during the 9th International Investigator's Conference.

This annual meeting continues to be one of the most important gatherings of integrity officials from multilateral banks, the United Nations, and other international organizations. Some of the subjects discussed were: due process in conducting investigations; interview methods; using technology to improve investigations; and external reviews of investigative offices.

### **13<sup>TH</sup> INTERNATIONAL ANTI-CORRUPTION CONFERENCE**

OII led a workshop addressing "The Fight against Corruption at the MDBs" and had the opportunity to participate in meetings with industry leaders during the 13<sup>th</sup> International Anti-Corruption Conference titled, "Global Transparency: Fighting against Corruption for a Sustainable Future." This biannual conference hosted representatives involved in the fight against corruption from the government and private sectors, as well as civil society.

## VI. NEXT STEPS

### The Way Forward

In 2008, OII made significant strides in both its prevention and investigative arenas of responsibility — notably in creating and implementing a new integrity risk prevention program and in updating and enhancing investigative procedures.

In 2008 the Bank Group's integrity programs were the subject of two external reviews. The first review concerned the Bank's "**Anti-corruption Framework**" and its report with recommendations was submitted to the President in November.

This report was conducted by a team led by Richard Thornburgh and Jorge Santistevan de Noriega, and it is available at: <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1824265>

Senior Management committed to engage in a dialogue with the Board of Executive Directors to receive input on prioritization and to define an implementation plan in 2009.

A separate review was conducted by Deloitte Financial Advisory Services LLP of the Bank Group's "**Private Sector Integrity Framework**." Under the direction of the Vice President for Private Sector and Non-Sovereign Guaranteed Operations and OII, a working group has been constituted to study and implement the recommendations on how to improve the Bank Group's integrity due diligence mechanisms in its private sector lending activities.

In 2009, OII will draft a proposal for the investigations section that envisions a more dynamic and selective role for the team. This will include the possibility of developing a "**triage**" **approach to case selection** — which will allow OII to dedicate its limited resources to investigating high-impact cases that carry a strong likelihood of a future deterrent effect — and generating a lessons-learned knowledge base that can be shared with the members of the IDB Group.

The Bank Sanctions Committee has completed its first two years of operations. As suggested in the external review, the Bank will explore alternatives to the Committee's current structure, including potential changes in membership and the addition of a Case Analyst. The implementation of the recommendations from the external reviews will be among OII's most important activities in 2009.

In the area of prevention, OII will launch the **Red Flags Matrix pilot program** that was developed in conjunction with VPC/PDP, with plans to roll it out to more COFs over the course of the year. The data collected by the Red Flags Matrix will be used to support improvements in the design and supervision of Bank products, thus improving the Bank staff's capacity to reduce integrity risks.

As the Bank Group revises its internal IT systems, OII will be able to resume its **Data Mining project** that will further enhance and supplement the data collected and analyzed in the Red Flags Matrix and IRRs leading to the creation of a comprehensive, robust knowledge base.

In cooperation with the EO, PDP and ICS, OII's prevention team will continue its efforts to identify and reduce integrity risks in Bank Group's operations, by sector and by country, through **additional Integrity Risks Reviews**. The basis for analysis will be expanded to include not only the results of OII investigations, but also data generated by the Red Flags Matrix.

OII will pursue efforts in fiduciary reform and will actively participate in IDB working groups dealing with **risk management** and fiduciary systems. This will ensure proper definition of risks of fraud and corruption as the Bank makes progress with its new matrix structure.

We recognize that resources are often limited; each year OII examines and evaluates its ability to achieve greater efficiency in its programs and activities in support of the Bank Group. It will continue to seek a balance of efficiency and efficacy in these challenging economic times.

As ever, the fight against fraud and corruption, and the efforts to maintain integrity as a moral and cultural norm, are part of ongoing review and careful improvement.

## ANNEX I: DEFINITIONS<sup>14</sup>

**THE BANK DEFINES, FOR THE PURPOSE OF THIS PROVISION, THE TERMS SET FORTH BELOW:**

A **CORRUPT PRACTICE** is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly 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;

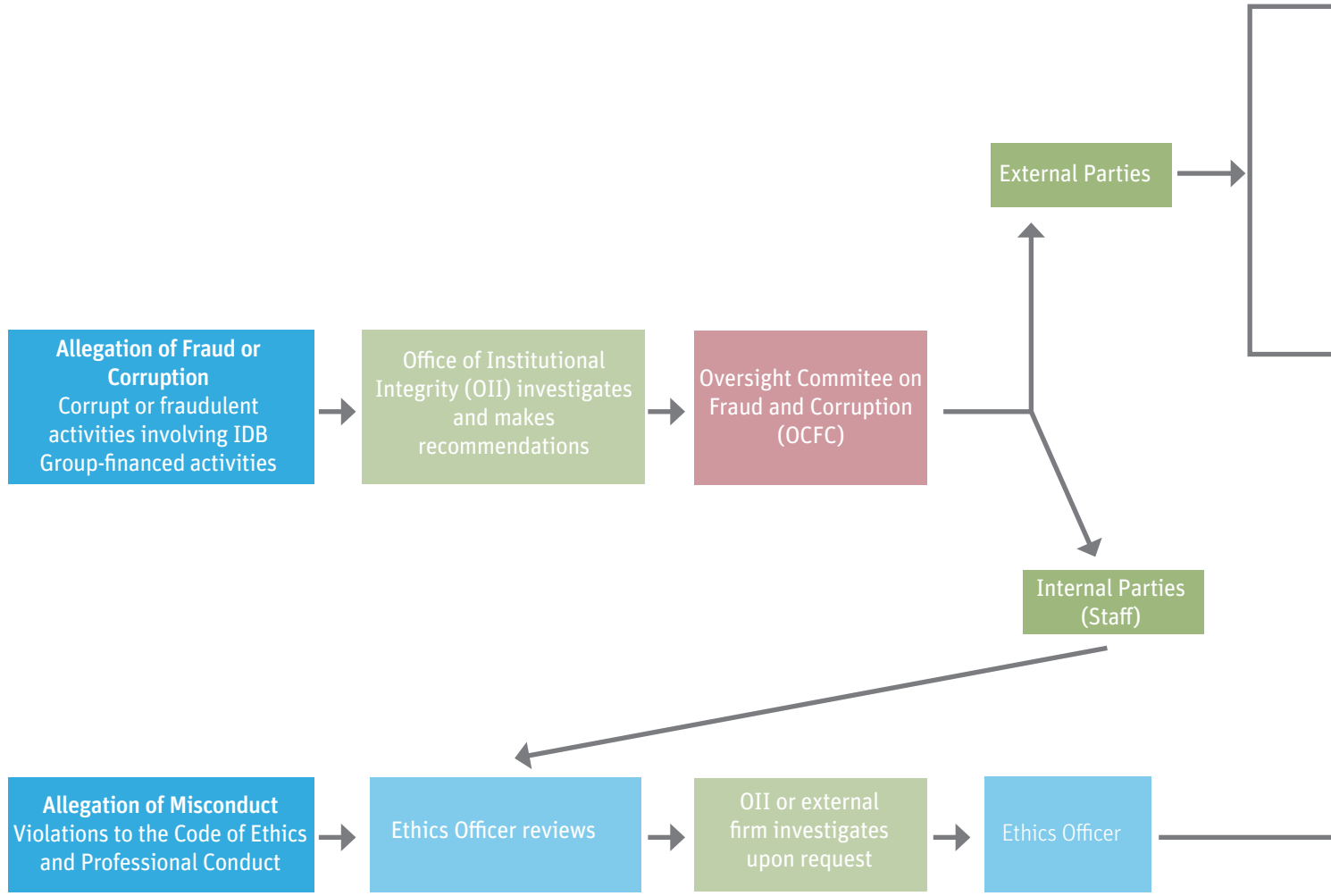
A **COERCIVE PRACTICE** is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to improperly influence the actions of a party; and

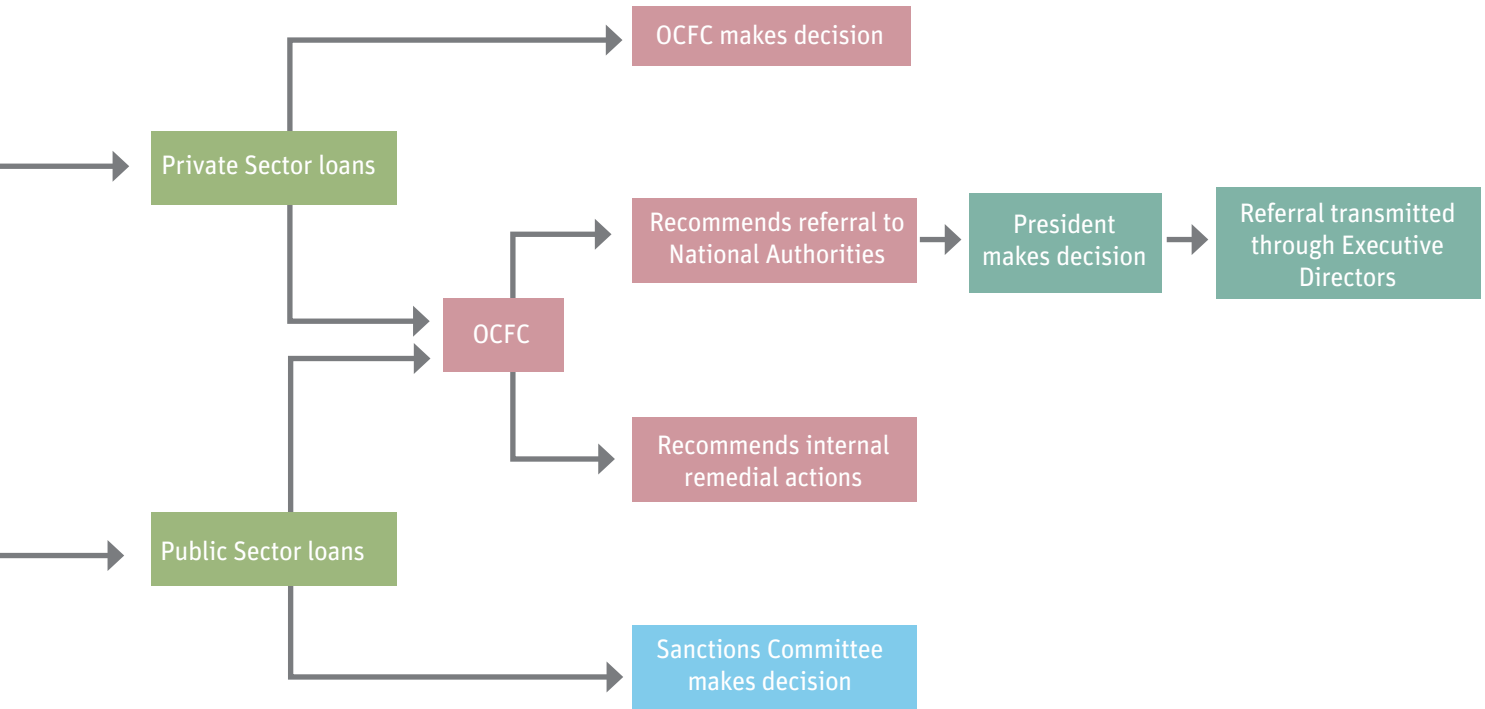
A **COLLUSIVE PRACTICE** is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

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

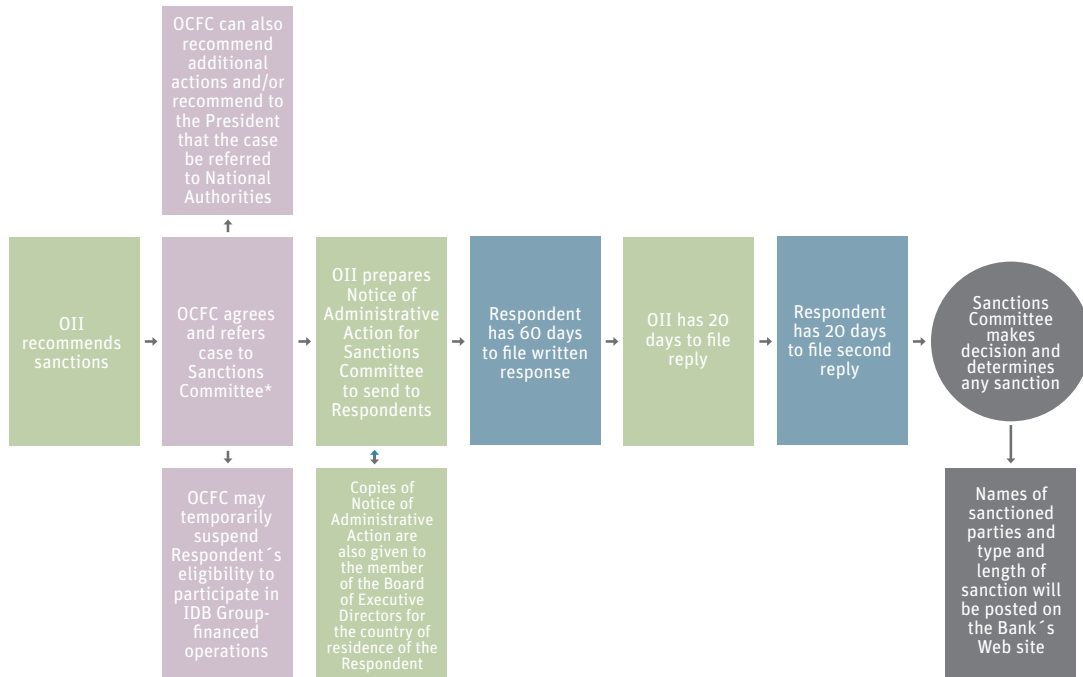
<sup>14</sup> [http://www.iadb.org/integrity/project\\_integrity.cfm?language=EN&parid=3#](http://www.iadb.org/integrity/project_integrity.cfm?language=EN&parid=3#).

# ANNEX II: THE INVESTIGATIONS PROCESS





# ANNEX III: THE SANCTIONS PROCESS



■ OCFC: Oversight Committee of Fraud and Corruption   ■ OII: Office of Institutional Integrity   ■ Respondent   ■ Sanctions Committee

\* Cases involving private-sector lending activities or investment by the Multilateral Investment Fund are not referred to the Sanctions Committee: rather, OCFC retains jurisdiction throughout the process.



## CONSULTING WITH OII OR REPORTING A VIOLATION

Consultations e-mail:	OII-consult@iadb.org
Allegations e-mail:	Allegations@idbfc.org
Phone:	See chart below
Fax:	1-202-312-4029
Regular mail or in person:	Office of Institutional Integrity Inter-American Development Bank 1300 New York Avenue NW, Stop B680 Washington, DC 20577 USA

**Step 1.** Dial access code provided below for the country you are calling from.

**Step 2.** You will be asked to dial or provide the number that you would like to call.

**Step 3.** Dial or provide the number 877-223-4551

Country	Access code	Country	Access code
Argentina	0-800-555-4288	Haiti	183
Bahamas	1-800-872-2881	Honduras	800-0-123
Barbados	1-800-872-2881	Jamaica	1-800-872-2881
Belize	811	Mexico	01-800-288-2872
Bolivia	800-101-110	Nicaragua	1-800-0174
Brazil	0800-890-0288	Panama	800-0109
Chile	800-255-288	Paraguay	008-11-800
Colombia	01-800-911-0011	Peru	0-800-50-000
Costa Rica	0-800-0-114-114	Suriname	156
Dominican Rep.	1122	Trinidad & Tobago	1-800-872-2881
El Salvador	800-1785	United States	1-800-255-5288
Ecuador	1-999-119	Uruguay	000-410
Guatemala	99-99-190	Venezuela	0800-2255-288
Guyana	159		

To view the full list of countries, visit [www.iadb.org/oii](http://www.iadb.org/oii).

### Allegations of fraud or corruption can be reported confidentially and securely:

**MAIL ADDRESSED TO OII SHOULD BE MARKED “PERSONAL AND CONFIDENTIAL.”**

Allegations may also be made to the Bank Group President, vice presidents, managers, senior management of the IIC, MIF, or to the IDB Group Country Office Representative in each of its borrowing member countries, as well as to the Bank representatives in Europe and Asia. Allegations of staff misconduct should be reported to the Ethics Officer.

### WHAT HAPPENS NEXT

After a report is filed, all allegations are reviewed by OII and reported to the Oversight Committee on Fraud and Corruption (OCFC). OII does not reveal the source of the allegation(s) to anyone outside of OII.

OII conducts a preliminary review of cases of alleged fraud and corruption before beginning an investigation, asking the following questions:

- » Does the allegation concern any activity financed by the Bank Group?
- » If the allegation were true, would it constitute a violation of the Bank Group’s prohibition against fraudulent or corrupt practices?
- » Does the allegation provide sufficient credible information to warrant an investigation by OII?

If the answer to each of these questions is yes, OII may conduct a full investigation and report its findings to the OCFC for a determination of whether the matter should be referred to the Sanctions Committee and what further action, if any, is warranted.