



**The Inter-American Investment Corporation's**

**INTEGRITY FRAMEWORK**

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## INTEGRITY FRAMEWORK

<b>I.</b>	<b>General Principles</b>
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1. **Purpose.** The purpose of this Integrity Framework is to reiterate the Corporation's firm commitment to integrity in all of its operations and activities, and to strengthen the mechanisms through which the Corporation carries out that commitment by:
  - i. establishing principles according to which the Corporation will design and apply processes and tools for the management of integrity risk and its associated reputational and other impacts;
  - ii. reflecting the definitions of Prohibited Practices adopted by the IIC and reflecting the inclusion of the IIC in the IDB Group's sanction system;
  - iii. setting a foundation for the provision of advice and information to internal and external audiences regarding integrity matters; and
  - iv. clarifying the role of the IDB's Office of Institutional Integrity<sup>1</sup> (OII) in supporting the Corporation's achievement of these objectives.
  
2. **Integrity in IIC Operations and Activities.** Integrity is essential for achieving the Corporation's goals and maintaining its reputation. The Corporation expects its clients to abide by the highest standards of ethics, integrity, transparency and accountability in relation to all IIC operations. The Corporation also expects all of its employees to adhere to the same high standards in their professional and personal behavior.<sup>2</sup>
  
3. **Responsibility for Integrity.** The Corporation is primarily responsible for managing integrity risk and its potential reputational and other impacts in connection with all IIC operations and activities. IDB Group Country Representatives and IIC employees are responsible for remaining alert to factors that may suggest the existence of integrity risk, and for raising such issues to their management. The executives and managers of the Corporation are responsible for regularly communicating the Corporation's commitment to integrity in its operations. This includes making integrity a regular topic of reference, recognizing and rewarding employees who demonstrate a commitment to it, and ensuring that the IIC takes action when behavior inconsistent with these values is detected.

Management may issue directives, guidelines and procedures from time to time to manage integrity risk and associated reputational impacts arising in connection with the IIC's operations. Such directives, guidelines and procedures shall adhere to the provisions of this Framework.

OII will be responsible for investigating allegations of Prohibited Practices and will also serve as an advisory resource to the IIC regarding management of integrity risks. OII will provide expert advice to operational units, IIC management and the IIC Board and will oversee the implementation of the Corporation's integrity risk management tools and mechanisms.

4. **Cooperation:** The Corporation shall cooperate with the Bank and seek consistency in the application and implementation of integrity standards. The Corporation is represented by its General Manager and General Counsel at the Anticorruption Policy Committee, the

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<sup>1</sup> Or any successor office.

<sup>2</sup> Those standards are specified in the Corporation's Code of Ethics and Professional Conduct, to which all employees are subject.

purpose of which is to oversee policy development and implementation of the IDB Group's anti-corruption strategy.

The Corporation shall also cooperate with other international financial institutions in the efforts to achieve uniform standards, policies and practices that relate to the integrity of their operations and activities. This cooperation includes but is not limited to harmonized efforts to combat and prevent fraud and corruption. The Corporation may also cooperate with and become a member of public and private initiatives that promote integrity, transparency and the fight against fraud and corruption.

## **II. Managing Integrity Risk**

5. **Integrity Risk.** Integrity risk is the possibility that a person or entity engages in serious ethical or financial misconduct in connection with an IIC operation. Such misconduct includes Prohibited Practices (as defined below), but also encompasses other improper activity, including money laundering, terrorist financing, tax evasion, and abusive tax practices. Such misconduct is itself harmful – to countries, governments, markets and individuals. When it occurs in IIC operations, it adversely affects the ability of the IIC to further its development purpose and safeguard its financial sustainability. Separately, association with persons suspected of engaging in such misconduct could damage the reputation of the IIC, which could also adversely affect the IIC's development mission and financial sustainability.

6. **Integrity Due Diligence in Operations.** In order to manage integrity risk and the associated risk of reputational and other impacts in its operations, the Corporation shall conduct integrity due diligence on IIC operations prior to approving or otherwise giving effect to 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.

7. **General Integrity Review.** A cornerstone of integrity risk management is to “*know your customer*”. This requires the Corporation to conduct and regularly update, with the support of OII, appropriate due diligence on its potential clients, existing clients and projects, as well as associated individuals and relevant related parties. Core elements of this review shall include:

- i. identifying and screening<sup>3</sup> ultimate beneficial owners;
- ii. identifying and screening top managers, directors and other key employees of the client; and
- iii. obtaining information regarding relevant litigation, enforcement or investigative activity involving the client.

8. **AML/CFT Review.** The Corporation will take a risk-based approach to the assessment of AML/CFT risks in its operations. Because financial institutions are the gatekeepers to the financial system and play a key role in the control of illicit financial flows, the Corporation

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<sup>3</sup> “Screening” means searching relevant databases for integrity risk indicators related to such persons. Such indicators may include being considered a politically exposed person, being subject to economic or administrative sanctions, being under criminal investigation or involved in administrative or civil proceedings alleging serious ethical or financial misconduct.

– with the support of OII – will assess the effectiveness of the AML/CFT controls of financial institution clients. The Corporation will consider if AML/CFT risks are increased by the type of client, type of product or the jurisdiction in which the operation is implemented. Where indicators of increased risks are present, OII may recommend additional due diligence.

Also, in its assessment of the AML/CFT risks presented by jurisdictions, the Corporation will rely primarily on the work of the Financial Action Task Force (FATF). To that end, the Corporation:

- i. will not provide financing to any financial institution established in or regulated by a jurisdiction for which the FATF is calling on its members through a public statement to apply counter-measures due to on-going and substantial money laundering and terrorist financing risks emanating from that jurisdiction; and
- ii. will require additional due diligence for any financial institution established in or regulated by a jurisdiction which the FATF, through a public statement, has identified as having strategic AML/CFT deficiencies.<sup>4</sup> If after conducting such due diligence the Corporation determines that risks are not adequately mitigated, the Corporation will not finance the project.

9. **Structural Integrity Review.** The Corporation’s clients may use cross-border structures in their operations – the use of such structures is a common practice in the private sector and may occur for a variety of legal and legitimate reasons. Nonetheless, the use of cross-border structures may present integrity risks associated with corruption, money laundering, terrorist financing and tax evasion, among others. Moreover, cross-border structures can be used to inappropriately reduce tax revenues paid in countries where IIC projects are located (a “Project Host Country”).

To manage integrity risks arising in connection with the use of cross-border structures, the Corporation, with the support of OII, will assess whether its client’s corporate structure present risk factors meriting a tax review or a tax information exchange risk assessment.

- a. **Tax Reviews.** The Corporation, with the support of OII, may conduct a tax review when cross-border structures present the following risk factors:
  - i. use complex or opaque structures;
  - ii. use shell companies;
  - iii. use entities in low or no tax jurisdictions; and
  - iv. use entities in a jurisdiction that presents tax information exchange risk, as defined below.

The tax review generally encompasses (i) consideration of the client’s use of, and rationale for, the structure; and (ii) diligence to detect indicators of tax evasion or aggressive tax planning arrangements.

- b. **Tax Information Exchange Risk Assessment.** The Corporation will not finance a project if its proposed client or an entity that directly or indirectly controls<sup>5</sup> its proposed client is

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<sup>4</sup> This category would include jurisdictions that: (i) have strategic AML/CFT deficiencies for which they have developed an action plan with the FATF; (ii) have strategic AML/CFT deficiencies on which they have not made sufficient progress or have not committed to an action plan developed with the FATF.

<sup>5</sup> Control means the power to, directly or indirectly, direct or cause the direction of the management and policies of the companies or projects, whether through the ownership of voting shares, by contract or

established in a jurisdiction (other than the Project Host Country) that presents tax information exchange risk unless the Corporation is satisfied that measures are in place to effectively mitigate such tax information exchange risk in connection with the IIC operation. OII will support the Corporation in its assessment and mitigation of tax information exchange risks.

Tax information exchange risk is presented when cross-border structures use jurisdictions that lack adequate laws, regulations or mechanisms for the effective exchange of tax information among national tax authorities. To identify such jurisdictions, the Corporation relies primarily on the output of the peer review process of the Global Forum on Tax Transparency and the Exchange of Information for Tax Purposes (the “Global Forum”). The Global Forum peer review process assesses whether jurisdictions have, and adequately implement, laws and regulations allowing them to effectively exchange tax information upon request from other jurisdictions.

The Corporation will consider that a cross-border structure presents tax information exchange risk when it uses:

- i. a jurisdiction that has undergone a Phase 1 Global Forum review, which resulted in the deferral of its Phase 2 review; or
- ii. a jurisdiction that has received a rating of Noncompliant or Partially Compliant as a result of its Phase 2 review.

In addition, if the Corporation’s proposed client or a controlling shareholder of the Corporation’s proposed client is established in a jurisdiction (other than the Project Host Country) that is not a member of the Global Forum or that has not yet undergone a Phase 1 Global Forum review, the Corporation, with the support of OII, will assess whether any barriers to the effective exchange of information with the Project Host Country are present. If such barriers are present, the Corporation will consider that jurisdiction to present tax information exchange risk in the context of IIC operations.

10. **Mitigation, Disclosure, Monitoring and Record Keeping.** The Corporation shall assess if any integrity risks identified fall outside the Corporation’s risk appetite and shall endeavor to mitigate such risks. The Corporation shall disclose to the relevant decision-makers any heightened or significant risks identified in connection with an IIC operation, and the assessment of OII regarding integrity risks or potential reputational impacts. The Corporation shall monitor all operations in its portfolio for integrity risk or reputational or other impact on an ongoing basis throughout the project cycle. The Corporation shall keep records of the risk assessment conducted for each project.
11. **Review.** The Corporation, with the support of OII, shall assess as necessary whether developments among international organizations, lessons learned or other measures of best practice warrant adjustments to the core elements of integrity due diligence in operations contemplated under this Framework.
12. **Corporate procurement.** Integrity risk can also arise in connection with the corporate procurement activities of the Corporation. Accordingly, the Corporation shall maintain policies and procedures for the procurement of goods and services that maintain

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otherwise. Control will be determined in the context of each specific transaction structure and could include majority ownership of voting shares, other control mechanisms (such as “golden shares”, veto rights or shareholders’ agreements requesting special majorities) or, in the case of investment fund financing, the control exercised by a general partner or fund manager.

transparency and accountability in the corporate procurement process. The Corporation will periodically review and update those policies and procedures, and may consider other actions to manage integrity risk in procurement operations, including the investigation and sanction of suppliers who engage in Prohibited Practices.

### III. Investigation and Sanction of Prohibited Practices

13. **Zero Tolerance of Prohibited Practices.** One way the Corporation promotes integrity is by prohibiting its counterparties from engaging in fraudulent, corrupt, coercive, and collusive practices in its operations and from obstructing an investigation into such practices. The Corporation believes in a standard of zero tolerance of Prohibited Practices and will maintain channels to receive allegations of Prohibited Practices as well as a system to address such allegations and to impose sanctions, following the application of administrative sanctions procedures, whenever allegations are substantiated.
14. **Definitions of Prohibited Practices.** The IDB Group has agreed with other International Financial Institutions<sup>6</sup> on harmonized definitions of fraudulent and corrupt practices that shall be sanctionable. In addition, the IDB Group may also sanction a firm or individual for having engaged in an obstructive practice. Collectively, these practices are referred to as Prohibited Practices and are defined below.
- i. A Corrupt Practice is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party;
  - ii. 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;
  - iii. 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 influence improperly the actions of a party;
  - iv. 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;
  - v. An Obstructive Practice is:
    - a. 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;
    - b. 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
    - c. acts intended to impede the exercise of the IDB Group's contractual rights of audit or inspection or access to information.
  - vi. A Misappropriation is the use of IDB Group financing or resources for an

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<sup>6</sup> Uniform Framework for Preventing and Combating Fraud and Corruption, African Development Bank Group, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank Group, International Monetary Fund, World Bank Group and IDB Group, September 2006.

improper or unauthorized purpose, committed either intentionally or through reckless disregard.

15. **Investigations.** Investigations of Prohibited Practices in relation to an IIC operation will be conducted by OII in accordance with the Principles and Guidelines for Investigations endorsed by the International Financial Institutions.<sup>7</sup> All investigative activities are confidential, which means that OII will reveal details of the investigation only on a need-to-know basis in order to permit an investigation to be undertaken and to respond to the concerns presented.

If, following an investigation, OII determines that a counterparty of the Corporation engaged in a Prohibited Practice, it will initiate sanctions proceedings pursuant to the Sanctions Procedures of the IDB Group.

16. **Sanctions Procedures.** The Corporation has adopted the IDB Group Sanctions Procedures, which may be amended from time to time. The Sanctions Procedures are applicable to parties involved in IIC operations and activities as defined therein.<sup>8</sup>
17. **IIC Counterparties' duties.** By virtue of their contractual agreements or commitments with the Corporation, IIC counterparties will be required to promptly report to the Corporation any allegations of Prohibited Practices that may come to their attention, and cooperate with any investigation, audit or any other inquiry conducted by OII.
18. **Employee's duties.** If an employee of the Corporation obtains information as to, or suspects, the occurrence of a Prohibited Practice in connection with any proposed or actual IIC operation, client and/or related party, the employee has a duty to report those facts to OII, through any of the reporting channels established by it. An employee's failure to report the possible occurrence of a Prohibited Practice or to cooperate with an investigation conducted by OII constitutes misconduct.
19. **Protection of Whistleblowers and Witnesses.** To ensure that employees and external parties have every confidence that they can come forward with an allegation of a Prohibited Practice, the Corporation has adopted policies and procedures for the protection of whistleblowers and witnesses. These include the express prohibition of retaliation, which is considered a form of misconduct. The definition and treatment of retaliation are further defined in the Corporation's Staff Rules.
20. **Cross-debarment Mechanism.** The Corporation has entered into the Agreement for Mutual Enforcement of Debarment Decisions, dated April 9, 2010, by means of which each participating institution to the agreement will enforce debarment decisions made by another participating institution, provided such enforcement is not inconsistent with its legal or other institutional considerations. The Corporation will adopt procedures, as needed, in order to have its debarment decisions recognized and enforce debarment decisions imposed by other international financial institutions under this Agreement.

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<sup>7</sup> These Principles and Guidelines are part of the Uniform Framework for Preventing and Combating Fraud and Corruption.

<sup>8</sup> Sanctions Procedures may currently be consulted at <http://www.iadb.org/en/topics/transparency/integrity-at-the-idb-group/prohibited-practices-at-the-idb,2704.html>

<b>IV.</b>	<b>Technical Assistance</b>
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21. **Technical assistance to Clients and/or Related Parties.** Within the context of the Corporation’s technical cooperation strategy, the Corporation may include in technical assistance programs offered to its clients, activities intended to promote integrity, transparency, fairness and ethical conduct such as the design and implementation of integrity-related policies and procedures (*e.g.*, advice regarding anti-corruption compliance programs or AML/CFT controls). These activities will seek to achieve a leveled playing field for all businesses, and contribute to the goals of good governance and the expansion and modernization of private enterprises.

<b>V.</b>	<b>Dissemination and Training</b>
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22. **Publication.** The Corporation shall display this Framework and its Sanction Procedures in a user-friendly format, on its website and through any other channels deemed appropriate.

23. **Training activities for employees.** The Corporation, with the support of OII, shall offer training to its employees on the interpretation, implementation and application of this Framework. The main objective of the training will be to strengthen employees’ understanding, abilities and analytical capacity with respect to integrity risk and its reputational and other impact during the origination, due diligence, structuring, closing and portfolio supervision of IIC operations, as well as to deepen understanding of Prohibited Practices.

24. **Dissemination among clients.** The Corporation shall make potential clients aware of the Prohibited Practices, the Corporation’s ability to impose administrative sanctions and its agreement with International Financial Institutions to mutually recognize sanctions.