



STRATEGIC FRAMEWORK

FOR INTEGRITY, COMPLIANCE & ACCOUNTABILITY
2015



CARIBBEAN DEVELOPMENT BANK

STRATEGIC FRAMEWORK FOR INTEGRITY, COMPLIANCE AND ACCOUNTABILITY (2015)

Provides a comprehensive strategic framework for institutional integrity (fraud and corruption), ethics, whistleblowing, anti-money laundering, countering the financing of terrorism, monitoring of financial sanctions, and accountability for environmental and social harm caused or likely to be caused by Bank-financed projects.

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STRATEGIC FRAMEWORK FOR INTEGRITY, COMPLIANCE AND ACCOUNTABILITY

A comprehensive strategic framework for institutional integrity (fraud and corruption), ethics, whistleblowing, anti-money laundering, countering the financing of terrorism, monitoring of financial sanctions, and accountability for environmental and social harm caused or likely to be caused by projects financed by the Bank.

1. INTRODUCTION

1.01 The Caribbean Development Bank (the Bank), adheres to the highest standards of integrity, ethics, compliance, transparency and accountability, with zero tolerance for fraud, corruption, money laundering, financing of terrorism and similarly corrosive conduct.

1.02 This document articulates the Bank's creation of a Strategic Framework for Integrity, Compliance and Accountability (Strategic Framework) and an internal independent office to be called the Office of Integrity, Compliance and Accountability (OICA), to operationalise and manage the Strategic Framework.

1.03 The Strategic Framework provides a suite of policies and procedures for: (a) institutional integrity; (b) ethics; (c) whistleblowing; (d) compliance with international standards for anti-money laundering/ combating of terrorist financing (AML/CFT) and monitoring of financial sanctions; and (e) accountability, including a project complaints mechanism to receive and help to resolve concerns related to adverse environmental and social impacts from projects financed by the Bank.

1.04 This Strategic Framework will be refined continually to be consistent with modern best practices of international financial institutions (IFIs) and as appropriate to the Bank's operating environment, needs, size, risks and resources.¹

2. KEY DEFINITIONS

2.01 For the purposes of this Strategic Framework:

Accountability means 'operations-related', and specifically, 'project-related accountability,' which is the extent to which the Bank should prevent, monitor and resolve the adverse environmental and social impacts of its Projects.

Compliance means the Bank's adherence to a policy and procedures, which adopt relevant rules, regulations, standards, codes and norms to combat money laundering and financing of terrorism, and for monitoring in order to avoid violations of financial sanctions.

Director means a member of the Bank's Board of Directors. Every reference to a "Director" means the Director and his/her alternate and advisors.

Ethics means adherence by relevant persons to any code of conduct, or rules and regulations issued by the Bank for its Directors and Staff.

Integrity means 'institutional integrity' and includes but is not limited to the prohibition of wrongdoing related to fraud, corruption, collusion, coercion (known as Prohibited Practices) and other corrosive practices like theft, bribery, conflicts of interest, deception, forgery, extortion, conspiracy,

¹ It is also aligned as far as possible to the: (1) Basel Committee on Banking Supervision (BCBS), *Principles of the Sound Management of Operational Risk* (BIS, June 2011) and BCBS, *Sound Management of risks related to money laundering and financing of terrorism* (January 2014); (2) International Financial Institutions Anti-Corruption Task Force's *Uniform Framework Agreement* (2006); (3) *MDBs Principles and Guidelines for Investigations* (2006), (4) *MDBs Agreement for mutual enforcement of debarment decisions* (2010); (5) United Nations' Convention Against Corruption; and (6) Financial Action Task Force's Recommendations (2012).

embezzlement, misappropriation, false representation, concealment of material facts, misconduct and any interference with, or obstruction of, investigations undertaken pursuant to this Strategic Framework.

Staff means the management, (including the President and Vice-Presidents), professional and support staff, temporary employees, other contracted employees, consultants, secondees, interns and personnel on exchange assignments without regard to their position, rank, title, duration of contract with, or length of service to, the Bank.

3. **PRINCIPLES**

3.01 The Strategic Framework and OICA are founded on the following four core principles:

- (a) integrity;
- (b) accountability;
- (c) excellence; and
- (d) transparency.

3.02 OICA will pursue excellence as a standard of quality while operationalising a Strategic Framework that promotes integrity, ethics, compliance, transparency and accountability in the Bank's systems and operations.

4. **PURPOSE**

4.01 The Strategic Framework provides the foundation for the Bank to articulate policies and to issue procedures to enhance its Integrity, Ethics, Compliance and Accountability functions.

4.02 The Strategic Framework provides for the establishment of OICA with the mission, responsibilities and authority as outlined in the terms of reference (attached as Appendix 1), which includes working with the Board of Directors (BOD) and management to:

- (a) reinforce a culture that promotes Integrity, Ethics, Compliance and Accountability within the Bank using mechanisms that are appropriately scaled to the Bank's operating environment, needs, size, risks and resources;
- (b) ensure that each person to whom this Strategic Framework applies, adheres to principles, policies and procedures, that are aligned, as far as possible, with international best practices for Integrity, Ethics, Compliance and Accountability;
- (c) mitigate proactively, the Bank's vulnerability to integrity risks that may arise in the Bank's internal systems and external operations, particularly from Staff-related conduct and external client-related conduct, the manifestation of which risks may damage the Bank's reputation, and give rise to financial losses from fraud, corruption, money laundering and terrorist financing, and violation of financial sanctions;
- (d) prevent and detect violations relating to Integrity, Ethics, Compliance and Accountability;
- (e) receive, assess and investigate, allegations of suspected fraud, corruption and other violations related to Integrity, Ethics and Compliance;
- (f) respond to, investigate and resolve complaints and requests related to Accountability through an internal independent mechanism;

- (g) make appropriate recommendations to any internal sanctioning office, committee, management or the Board for the imposition of sanctions on persons determined by investigation findings to have violated the Bank's policies and procedures;
- (h) monitor the enforcement and implementation of recommendations and sanction decisions made by any internal sanctioning office, committee, management or the Board; and
- (i) manage a system for confidential whistleblowing and for the protection of whistleblowers from retaliation.

5. **STRATEGIC PILLARS**

5.01 The strategy that drives the Strategic Framework is based on the following four Pillars that emphasise building and strengthening the Bank's internal capacity for:

- (a) **PILLAR I** - *Institutional Integrity, Ethics and Whistleblowing (Fraud and Corruption)*

Promotion of Integrity and Ethics including prevention, detection, investigation, sanction and enforcement through an internal independent mechanism, including for whistleblowing and protection from retaliation.

- (b) **PILLAR II** - *Compliance (AML/CFT and Financial Sanctions)*

Combating money laundering and the financing of terrorism (ML/FT) and monitoring of financial sanctions through the use of an internal mechanism for prevention, detection and remediation of Compliance related risks.

- (c) **PILLAR III** - *Project Accountability (Projects Complaints Mechanism)*

Accountability for environmental and social harm from projects financed by the Bank through an internal independent accountability mechanism.

- (d) **PILLAR IV** - *Collaboration*

Collaboration with other IFIs and development partners to develop international best practices and to enhance the effectiveness of the Strategic Framework and OICA.

5.02 OICA will continually refine and operationalise each Pillar of the Strategic Framework.

6. **SCOPE OF APPLICATION - ACTIVITIES**

6.01 The policies and procedures issued pursuant to the Strategic Framework will be applied in the broadest possible manner to cover all relevant risks and violations related to the Bank's internal and external activities, systems and operations including projects financed by the Bank, the Bank's internal or corporate procurement and its external or project-related procurement.

7. **SCOPE OF APPLICATION - PERSONS**

7.01 This Strategic Framework applies to and for the benefit of:

- (a) Directors;
- (b) Staff;

- (c) borrowers, contractors, sub-contractors, consultants, vendors, suppliers, service providers, project promoters, sponsors, beneficiaries and, in general, relevant persons or entities dealing with the Bank in its own internal or corporate procurement or in external or project procurement, or otherwise involved in activities financed by the Bank;
- (d) counterparties and other organisations or entities with which the Bank deals in its borrowing, lending, grant-financing, equity, treasury or accessing of donations activities;
- (e) parties not mentioned above but otherwise bound by special provisions, including integrity clauses, in the Bank's contracts and technical cooperation or assistance agreements; and
- (f) complainants who submit complaints to the Bank's whistleblower system but who do not otherwise fall within any of the categories listed above.

8. **OVERSIGHT AND THE THREE LINES OF DEFENCE**

8.01 BOD through its committee with oversight for Integrity, Ethics, Compliance and Accountability (Oversight Committee) will oversee the Strategic Framework.

8.02 The Bank adopts the following three key lines of defence as an approach to be applied to all policies and procedures issued pursuant to the Strategic Framework and for operationalising the Strategic Framework:²

- (a) **First Line** - relevant business line units, divisions, departments and offices of the Bank, working to prevent, detect, and report relevant risks and violations by relying on written policies and procedures, their knowledge of the Bank's counterparties and the particular circumstances of each activity being undertaken by the Bank;
- (b) **Second Line** - OICA functioning as a dedicated internal independent mechanism with preventive and investigative functions and necessary authority as provided for in its terms of reference; and
- (c) **Third Line** - internal auditors and external auditors who review the Bank's compliance with the relevant policies and procedures issued pursuant to this Strategic Framework.

9. **PHASED AND RISK-BASED OPERATIONALISATION**

9.01 OICA will work to operationalise each pillar of the Strategic Framework in a phased and streamlined manner as appropriate to the Bank's operating environment, needs, size, risks and resources.

9.02 The policies and procedures issued pursuant to this Strategic Framework will emphasise the use of a risk-based approach to the operationalisation of each pillar of the Strategic Framework, having regard to the work of OICA, its collaboration with other independent offices in the Bank as it deems necessary, and the need to optimise the Bank's resources.

² The three lines of defence approach adopted here is consistent with the approach articulated in the Basel Committee on Banking Supervision, *Principles for the Sound Management of Operational Risk* (BIS, June 2011); the Basel Committee on Banking Supervision, *Guidance on Sound management of risks related to money laundering and financing of terrorism* (BIS: January 2014); the Institute of Internal Auditors (IIA) *Practice Guide on Auditing Anti-Bribery and Anti-Corruption Programs* (June 2014); IIA Position paper on the *Three Lines of Defense in effective Risk Management and Control* (January 2013) and with guidance from the IIA (Netherlands) White Paper, *Combining Internal Audit and the Second Line of defense Functions?* (2014).

10. **OICA's AUTHORITY AND OPERATION**

10.01 OICA shall have, for the purpose of its work and to enable it to carry out its responsibilities to fully operationalise the Strategic Framework:

- (a) functional and operational independence. In this context, independence means that the work of OICA will be functionally independent from the other units, divisions, departments and offices of the Bank;
- (b) security arrangements appropriate for its operating environment, records and work product;
- (c) the authority to request the assistance of any unit, division, department or office of the Bank and to engage specialised services from within or outside of the Bank sufficient to fill any gap in knowledge, skill, competence or resource that is not otherwise available within the Bank;
- (d) unrestricted access to Staff, records of the Bank and assets in the custody or control of the Bank only as necessary and appropriate for the conduct of its work, particularly its investigations. Any information accessed by OICA shall be subject to strict confidentiality and the Bank's standards for prudent management of information;
- (e) the authority to collaborate with other units, divisions, departments and offices of the Bank to rationalise use of resources and to avoid overlaps or underlaps of risk coverage related to Integrity, Ethics, Compliance and Accountability; and
- (f) the authority to collaborate with other IFIs.

10.02 OICA will determine its own procedures for investigations, which will as far as possible be coherent and consistent with international best practices of other IFIs including the Uniform Guidelines for Investigations³ structured as appropriate to the Bank's operating environment, needs, size, risks and resources.

10.03 Provisions will be made in relevant policies and procedures to enable OICA to perform its duties:

- (a) expeditiously;
- (b) confidentially, so that all allegations, investigations and communications to persons subject to, or interested in, investigations shall be treated with strict confidentiality;
- (c) free from any conflicts and free from constraints of any relationships (whether personal, professional or financial) that may risk undermining its work, particularly its investigations, findings or recommendations;
- (d) independently from any influence from, or oversight by, those connected to the subject of the investigation whether named in an allegation or otherwise involved;
- (e) with full freedom from any act or threat of abuse, improper influence, fear of retaliation, blackmail or any kind of harassment;
- (f) collaboratively, as it deems necessary, with due regard to the need for optimisation of the Bank's human and financial resources; and

³ As endorsed by the 10th Conference of International Investigators held on June 10-12, 2009 at the Dead Sea in Jordan.

- (g) having regard to the need to train and develop internal capacity including the leveraging of relevant resources and incorporation of actual lessons and experiences into training.

In any circumstance where the breach of any provisions related to (a) to (f) above is occurring or likely to occur, the Head of OICA shall be entitled to take steps promptly to resolve the matter including by direct referral as necessary, to the President of the Bank or the Chair of the Oversight Committee.

10.04 The Head of OICA shall collaborate with the Bank's Vice-President, (Corporate Services) and Bank Secretary and/or General Counsel as necessary to ensure appropriate steps are taken on matters related to the Bank's rights, obligations, privileges and immunities with respect to any matter.

10.05 OICA will work to integrate lessons learned from the Bank's own experiences and those of other IFIs together with relevant guidance by international best practice, any tested standards and sound development banking principles. When appropriate, OICA will collaborate with other IFIs including for the conduct of due diligence and investigations with those IFIs with which it has joint engagements.

11. **WHISTLEBLOWERS AND WHISTLEBLOWER PROTECTION**

11.01 The Bank shall make provision for persons who are classified as "whistleblowers" under the Bank's policies and procedures, to securely and confidentially to make complaints, submissions, reports and disclosures of wrongdoing and to be protected from retaliation.

12. **TRAINING AND ONGOING ADHERENCE**

12.01 It is fundamental to the Bank's development effectiveness that all stakeholders understand how the Bank can continue to finance projects with integrity and remain a reputable steward of the development resources it harnesses. Directors and Staff will be provided with information and ongoing training as necessary, sufficient to understand the Strategic Framework, the need for adherence to all relevant policies and procedures made pursuant to it, and to reinforce a culture of Integrity, Ethics, Compliance and Accountability within the Bank.

13. **ACCESS TO POLICIES AND PROCEDURES**

13.01 All policies, procedures and guidelines created pursuant to this Strategic Framework will be available to all Directors and Staff.

14. **COMMUNICATION AND REPORTING**

14.01 Only the President, Vice-Presidents, Head of OICA, the Head of the Corporate Communications and other authorised persons shall be entitled to make public statements concerning the work of OICA.

14.02 OICA shall collaborate with the Corporate Communications Unit to develop procedures, guidelines or protocols to manage the making of public statements with respect to the work of OICA, its investigations, findings, decisions, determinations and recommendations.

14.03 A summary of key statistics relevant to the work and effectiveness of OICA will be reported at least annually to the President and to BOD, and may be published, including on the Bank's website, in accordance with the Bank's Information Disclosure Policy.

15. **AUDIT**

15.01 The control infrastructure of, and actions taken pursuant to, the Strategic Framework may be internally reviewed and audited as necessary and as frequently as the Oversight Committee may request.

15.02 Internal audits and reviews may be conducted to ascertain that: (a) all policies and procedures issued pursuant to the Strategic Framework are adequate and enable OICA to perform its role as

appropriate to the Bank's purpose and needs; and (b) OICA is able to exercise operational independence in its work. OICA's investigative decisions, findings, determinations and recommendations may be reviewed as necessary and only by external auditors, as frequently as the Oversight Committee may request.

16. **REVIEW**

16.01 The Oversight Committee may commission a review of the Strategic Framework and OICA within the first three years of their operationalisation and at least once every five years thereafter, as necessary, to ensure that OICA:

- (a) is maintaining its operational independence, relevance, effectiveness and cost-efficiency;
- (b) has responsibilities and authority that are revised and enhanced as necessary;
- (c) is adequately resourced to discharge its responsibilities;
- (d) has terms of reference which are revised sufficiently to cover any new or ongoing structural organisational changes within the Bank and any changes in the Bank's work and risk profile; and
- (e) is working with policies and procedures that aim, as far as possible, to be coherent and consistent with the highest standards and international best practices for, Integrity, Ethics, Compliance and Accountability and are appropriately scaled to the Bank's operating environment, needs, size, risks and resources.

17. **EFFECTIVE DATE**

17.01 This Strategic Framework takes effect from May 18, 2015.