

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Promoting Transparency and Integrity in Corporate Governance
▪ TC Number:	RG-T3755
▪ Team Leader/Members:	De Simone, Francesco (IFD/ICS) Team Leader; De Michele, Roberto (IFD/ICS) Alternate Team Leader; Almeida Oleas, Natalia (LEG/SGO); Alvarez Bollea, Maria Cecilia (IFD/ICS); Catano Guzman, Mariana (IFD/ICS); Contreras Huerta, Rodrigo Andres (INT/TIN); Gamba, Jacopo (IFD/ICS); Mahfouz, Giovanna L. (IFD/ICS); Mejia Giraldo, Camila (IFD/ICS); Rivera, Katia (IFD/ICS); Veyrat-Pontet, Alexandre (IFD/ICS); Viegas Rocha, Marta (RSM/SEG) Oleas, Natalia (LEG/SGO); Alvarez Bollea, Maria Cecilia (IFD/ICS); Catano Guzman, Mariana (IFD/ICS); Contreras Huerta, Rodrigo Andres (INT/TIN); Gamba, Jacopo (IFD/ICS); Mahfouz, Giovanna L. (IFD/ICS); Mejia Giraldo, Camila (IFD/ICS); Rivera, Katia (IFD/ICS); Veyrat-Pontet, Alexandre (IFD/ICS); Viegas Rocha, Marta (RSM/SEG)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	27 Jul 2020.
▪ Beneficiary:	Latin America and Caribbean borrowing member countries. Peru and Ecuador have expressed interest and presented the required letters.
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Institutions(INS)
▪ IDB Funding Requested:	US\$200,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	December, 2020
▪ Types of consultants:	Individual consultants and consulting firms
▪ Prepared by Unit:	IFD/ICS-Innovation in Citizen Services Division
▪ Unit of Disbursement Responsibility:	IFD/ICS-Innovation in Citizen Services Division
▪ TC included in Country Strategy (y/n):	The project is prioritized in the Country Strategy of Peru 2020-2021
▪ TC included in CPD (y/n):	N/A
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Objectives and Justification of the TC

- 2.1 **Objective.** The objective of this Technical Cooperation (TC) is to support IDB member countries in Latin America and the Caribbean (LAC) in their efforts to increase the capacity of the public sector to promote transparency and integrity in the private sector by implementing corporate integrity and governance standards. Through this TC, the IDB Group will support the adoption of comprehensive integrity mechanisms, including corporate governance standards and codes of conduct in selected LAC countries. The specific objectives of this technical cooperation are: (i) conduct an analysis of best practices in corporate governance and codes of conduct, identifying gaps and main areas of improvement in terms of transparency and integrity in the private and public

sectors (in the latter case, with an emphasis on state-owned enterprises SOEs); (ii) provide technical assistance to member countries for the elaboration of general codes of corporate governance and conduct, applicable to all sectors and industries; (iii) provide technical assistance to member countries for the elaboration of sectoral codes of corporate governance and conduct taking into consideration the identities and particularities of each industry and the use of digital technologies for dissemination and compliance; and (iv) produce and disseminate knowledge to provide inputs for policy discussions within the public and private sector.

- 2.2 **Justification.** There is consensus that integrity issues require responses that adopt a collective action approach, which includes both public and private sectors' commitment. Countries in LAC face important challenges related to integrity and transparency reforms in the private sector and they present huge areas of improvement. In this sense, the IDB's Report of the Expert Advisory Group on Anti-corruption, Transparency, and Integrity in Latin America and the Caribbean (the "Report of the Expert Advisory Group") recommends a multi-layered approach that requires collective action by governments, the private sector, civil society, and international institutions to tackle the roots of corruption and policy capture through global, regional, and domestic initiatives. In other words, both the public and the private sector need to collaborate and agree on the importance of maintaining the highest standards of ethics and integrity that will govern their actions. This is the approach followed by the IDB Group Transparency and Integrity Sector Framework Document, which encourages the IDB Group to seek interventions that have both a public and a private engagement.
- 2.3 This is also the approach adopted by the VIII Summit for the Americas and the Americas Business Dialogue (ABD). In 2018, the ABD published the "*Action for Growth*" report, which includes policy recommendations and an Action Plan 2018-2021 for growth in the Americas¹.
- 2.4 More specifically, at the VIII Summit for the Americas, through the Lima Commitment, the Heads of State agreed to "promote codes of conduct for public officers that contain high standards of ethics, integrity and transparency (...), and to urge the private sector to develop similar codes of conduct". Similarly, through the 2018-2021 Policy and Action Plan Recommendations, the ABD suggests "encouraging the private sector to adopt comprehensive integrity mechanisms, including codes of corporate conduct, accompanied by effective implementation and periodic reviews of compliance plans".
- 2.5 Furthermore, the Report of the Expert Advisory Group highlights specific measures that can be promoted within the private sector, such as cooperation with the public sector for the preparation of guidelines and regulations on corporate governance to ensure compliance with regulations, promote integrity policies for small and medium-size enterprises (CMEs), using mentoring from larger firms within their supply chain, collective action and other similar strategies, develop corporate ethics and

¹ In the report, the ABD makes 42 recommendations across five key areas, the first one being strengthening transparency and integrity. The ABD recognizes that for development and economic growth efforts to be sustainable, they must be undertaken in a highly transparent manner. The ABD's recommendations and action plan is also aligned with the central theme of the VIII Summit for the Americas, "Democratic Governance Against Corruption," and the III CEO Summit, "Made in the Americas."

whistleblowing programs, establish a private sector-union dialogue to ensure common approach to ethical behavior and rejection of corrupt practices.

- 2.6 Finally, the current coronavirus (COVID-19) pandemic demands governments to take immediate actions towards strong public-private coordination. While aiming at meeting the highest standards of ethics, transparency and integrity during the response to the pandemic, it is essential that transparency, openness and integrity are preserved and that public purchases and contracting processes are reinforced to avoid the misuse of public funds. Close coordination between governments and the private sector is vital to ensure that corruption won't go unchallenged. This is the approach adopted by the *ABD Policy recommendations on addressing the coronavirus disease pandemic and mitigating its impacts*, particularly recommendation 16, which reinforces the need of transparency and integrity through public-private collaboration during this time. As events in the news have shown time and again during the pandemic, times of crisis pose opportunities for corruption, and it is only through an effective alignment of public and private sector and the implementation of strong ethics and corporate governance standards that instances of corruption can be prevented.
- 2.7 The health industry is particularly challenged by this emergency. Given the central role of medical technology, it is also essential that governments, industry, healthcare professionals and providers, and all relevant stakeholders strengthen their coordination to comply with the [Bogotá Principles](#) adopted in 2017 and welcomed by Heads of State during the 2018 CEO Summit of the Americas².
- 2.8 Two countries have expressed interest in addressing the increased number of corruption cases related, among other factors, to potential weaknesses in the governance of SOEs and key actors in the private sector: Peru and Ecuador. Although the TC addresses a very relevant and timely matter and several countries in the LAC region are already working towards the agenda of corporate governance in the public and private sector, the team foresees that one more country could be included as a beneficiary for this project. Both countries have approached the Bank to receive support in the identification of best practices in the design of codes of corporate governance and will help to identify partners from the private sector. Peru is deeply involved in the follow-up to ABD recommendations and offered to engage with key sectors in the gap analysis. In particular, Perú requested to focus in three main sectors: (i) construction and infrastructure, (ii) pharmaceutical, and (iii) education. The country has increased the focus on sustainable compliance systems for the private sector, also by typifying incentives for the promotion of compliance systems³.
- 2.9 In Ecuador, a culture of integrity in the private sector is also taking hold and integrity certification for SOEs is steadily increasing. The country has demonstrated interest in working in this agenda, particularly in the financial sector. For instance, recently the Bank has supported the anti-fraud certification process of Banco de Desarrollo de Ecuador B.P. In this context, several private banks have already approached the Bank to explore potential areas of technical assistance related to corporate governance.

² The Bogotá Principles adopt high-standard international ethical business practices for all stakeholders that operate within or interact with the medical technology sector.

³ For example, according to Law 30424 and Legislative Decree No. 1352, a Peruvian legal entity will not be liable for bribery offenses of its employees if it has voluntarily implemented a "Prevention Model" (compliance program) prior to the commission of the offense. If a legal entity implements a Prevention Model after the offense is committed, it will be considered as a mitigating factor.

Therefore, we expect that at least one private bank in Ecuador will be included as a beneficiary in this technical cooperation.

- 2.10 The public sector is expected to take the lead in providing the capacities for a more transparent corporate governance. In fact, the ABD also calls for improved capacity of the public sector to help companies establish and ensure the effectiveness of internal controls, ethics, and compliance programmes. This is paramount to prevent and detect, for example, the bribery of foreign public officials in their international business transactions (hereinafter “foreign bribery”). Additionally, ABD calls for the strengthening of business organizations and professional associations, which play an essential role in assisting companies in these efforts. This project aims at providing such capacities to key public sector institutions in charge of safeguarding a transparent business climate.
- 2.11 **Strategic Alignment.** The proposed TC is consistent with the updated IDB Institutional Strategy (2020-2023) (AB-3190-2) which indicates that the IDB Group will place special emphasis on promoting transparency and integrity as a way to strengthen institutional capacity and the rule of law. Under the IDB Institutional Strategy, transparency and integrity are defined as a key focus area. To achieve this objective, the IDB Institutional Strategy Update focuses on four areas of work: (i) support for the improvement of international standards and commitments on transparency, integrity, anti-corruption and governance; (ii) call for actors in favor of open government and transparency taking advantage of digital technology; (iii) greater integration of transparency and integrity in sectoral operations and improvement of the public-private approach; and (iv) strengthening internal coordination inside the IDB Group.
- 2.12 This TC is also aligned with two lines of action defined in the Sector Framework Document (SFD) on Transparency and Integrity (GN-2981); namely, those that seek to promote integrity in the public and private sectors. The SFD is consistent with the definitions of the Second Update to the Institutional Strategy. Both documents consider transparency and integrity as a cross-cutting issue and require the IDB Group to seek interventions that have both a public and a private engagement.
- 2.13 The project also aligns with the objectives of the Ordinary Capital Strategic Development Program for Institutions (OC-SPD for Institutions) Fund (GN-2819-1): (i) contribute to public policies and institutions that are more effective, efficient, open and citizen-centered; (ii) improve service delivery to citizens; (iii) reduce constraints for business growth and productivity; and (iv) strengthen enforcement of the rule of law, citizen security, and the fight against corruption. It also aligns with the cross-cutting area of institutions and rule of law by contributing to strategic objective 3.6(b), “Establish appropriate institutional frameworks”, by promoting efficient, fruitful, and transparent interaction between citizens and governments.
- 2.14 The TC is in alignment with the IDB Group Country Strategy with Perú, particularly with Component B (Institutional Strengthening and Delivery of Basic Services), especially par. 3.33. It is also aligned with the IDB Group Country Strategy with Ecuador (2018-2021), particularly with the Institutional Strengthening Priority Area (see section 3.11).

III. Description of activities/components and budget

- 3.1 To achieve the stated objective, this TC is organized in four components: (i) diagnosis and gap analysis; (ii) general codes of corporate governance and corporate conduct; (iii) sectoral codes of corporate governance and corporate conduct; and (iv) knowledge production and dissemination. Since each country is at a different stage of development in this agenda, and faces contextual challenges, interventions will follow a custom-made approach. Interaction among beneficiaries will be promoted by leveraging the knowledge production component. The latter will help ensuring that lessons learned, and best practices are adequately shared.
- 3.2 **Component 1: Diagnosis and gap analysis (US\$40.000).** This component is aimed at delivering a gap analysis of at least 2 countries: Ecuador and Perú. The analysis will include a review of current codes of corporate governance of selected SOEs and will identify main areas of improvement. This analysis will also benchmark with international standards, including OAS, UN and OECD treaties and agreements. This component will involve working with selected organizations, public institutions (e.g. Supreme Audit Institutions, the ministries responsible for oversight of private companies, among others) and private sector representatives such as companies, unions, and industry's federations. In particular, the project will support SOEs in identifying options to improve their corporate governance and define appropriate capacity building activities.
- 3.3 Particularly, in the health sector, the analysis will include the integrity challenges the private and public sector are experiencing or may experience during and following the COVID-19 crisis and how codes of conduct can support organizations in a time of crisis.
- 3.4 **Component 2: Codes of corporate governance and conduct (US\$50.000).** Based on the conclusions of the gap analysis, this component will provide technical assistance to the selected beneficiary countries for the elaboration of general codes of corporate governance and conduct applicable to all sectors and industries. The activities under this component will aim to assist the beneficiary agencies to: (i) update their existing code of ethics; or (ii) draft a new standardized code of ethics adaptable to all sectors and industries.
- 3.5 In addition, and following ABD's recommendations, this component will support the establishment of mechanisms to ensure the effective implementation and periodic reviews of the compliance programs, as well as the use of digital technologies for dissemination and compliance.
- 3.6 The focus for this component will be primarily on small and mid-size companies taking into consideration the important role of technology and the beneficiary countries' regulatory framework, especially regarding cases where legislation on criminal liability of legal entities has been recently approved. This will positively impact the public sector by diminishing the supply side of corruption. Examples of products under this component are a set of recommendations to reform current corporate codes and/or guidelines to set standardized codes adaptable to all sectors.
- 3.7 It is expected that the consulting firm Bruchou, Fernández Madero & Lombardi, from Argentina, will be hired (through the Single Source Selection Process) due to its recognized practice on Compliance. The firm has been actively involved in the corporate governance agenda, assisting different countries in the LAC region to implement, adopt, adjust, and review codes of ethics and corporate conduct, in alignment with international standards and best practices. The firm has extensive experience in designing and implementing compliance strategies tailored to address

each industry's risks. The firm's experience in the region, as well as their extensive knowledge of the anti-corruption legislation, places them in an unparalleled position to provide support and advice in this matter, presenting a clear and relevant advantage over its competitors, in accordance with GN-2765-1, section IV, 4.1.

- 3.8 **Component 3: Sectoral codes of corporate governance and conduct (US\$50.000).** Provide technical assistance to the selected beneficiary countries for the elaboration of sectoral codes of corporate governance and conduct, taking into consideration the particularities of each industry. Activities under this component include supporting CONFIEP (*Confederación Nacional de Instituciones Empresariales Privadas de Perú*) in the analysis of the risks and vulnerabilities of each industry in order to support in the design of a sectoral strategy in ethics, including the preparation of a code of ethics taking into account the demands of each sector as well as the risks and vulnerabilities analyzed⁴.
- 3.9 Given their potential to improve the governance of companies providing essential services (e.g. health), the codes will be shared with relevant actors from the civil society, in order to receive their recommendations. This is also driven by the need to increase the participation of citizens in service delivery and to hold service providers accountable.
- 3.10 In the health sector, activities under this component will include special considerations for the integrity challenges emerging from the COVID-19 pandemic, and how codes of ethics can support organizations in a time of crisis. Examples of products under this component are a set of recommendations to reform current sectoral codes.
- 3.11 **Component 4: Knowledge and Dissemination (US\$60.000).** This component focuses on the production and dissemination of knowledge and best practices in the field, and to promote policy discussions within the private and public sector. Specific activities include: (i) Virtual Workshops to exchange best practices among beneficiary countries; and (ii) Papers and technical notes summarizing the results of the Bank's assistance on this matter, indicating results and opportunities for improvement. The target audience is composed by practitioners, civil society organizations, trade unions, the academia and control and oversight bodies. All intellectual property rights from the products financed under this TC will be property of the Bank.
- 3.12 The total budget of the TC will be US\$200.000, financed with resources from Ordinary Capital of the Strategic Program of the Development Institutions (INS).

Indicative Budget (in US\$)

Component/Activity	INS	Total Funding
Component 1: Diagnosis and gap analysis	40.000	40.000
Component 2: Codes of Corporate Governance and conduct	50.000	50.000
Component 3: Sectoral codes of corporate governance and conduct	50.000	50.000
Component 4: Knowledge and Dissemination	60.000	60.000
Total US\$	200.000	200.000

⁴ Specific sectors will be prioritized based on demand, alignment with the relevant country strategy, and collaborations with the corresponding Bank sector.

IV. Executing agency and execution structure

- 4.1 At the request of the beneficiaries who expressed interest in the TC, the Executing Agency will be the Bank, through the Innovation in Citizen Services Division (IFD/ICS), in coordination with the specialists of the participating countries. In addition to being justified by the explicit request of the beneficiaries, the role of the Bank as implementing agency is justified for the following reasons: (i) no other institution has been identified to take up the coordination of these activities at the regional level. Transparency and integrity are sensitive issues to deal with while working simultaneously with the public and the private sectors. A direct involvement of the IDB in the execution of these activities provides more neutrality and gives even more credibility to the identified recommendations; and (ii) the lack of available resources to be used in a reasonable time achieve the expected results. Additionally, the execution is justified with the need of ensuring close alignment with the main international best practices and standards in these areas (see point (d) of Annex 10 of GN-2629-1, particularly bullet (iii)). The project team is led by Francesco De Simone (IFD/ICS) who will supervise the TC components. All activities to be executed under this TC have been included in the Procurement Plan (see Annex IV) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature; and (c) GN-2303-28 for logistics and other related services.
- 4.2 All technical support at country-level will require a letter of request or a non-objection letter from the Government as appropriate. Letters of Requests will be processed through the liaison agency in each country and these letters must expressly request IDB to be the executing agency. No activities will be carried out in those jurisdictions that do not have previously submitted a letter of request or a non-objection letter. A formal letter has already been received from Perú and Ecuador.

V. Major issues

- 5.1 The team has identified lack of sustainability of results, as the main risk stemming from the implementation of this TC, particularly the risk that suggested reforms designed with the support of the program may not be implemented or recommendations on other corporate governance areas not being followed and applied. To mitigate this risk, the project team will ensure that interventions are targeted to countries that have manifested with a clear statement of project goals and understanding of the enabling or constraining environment in which projects take place. All technical support at country-level will require a letter of request or a non-objection. To ensure proper coordination among all parties involved in the execution of this project, the team will benefit from the monthly meetings of the transparency working group for the follow-up mechanism to the ABD commitments.

VI. Exceptions to Bank policy

- 6.1 This operation does not foresee any exceptions to Bank policy.

VII. Environmental and Social Strategy

- 7.1 According to the results of the IDB "[Safeguards Policy Filter Report](#)", and the "[Safeguard Screening Form](#)", this operation is classified as Category "C", given the low impact on environmental and social issues.

Required Annexes:

[Request from the Client - RG-T3755](#)

[Results Matrix - RG-T3755](#)

[Terms of Reference - RG-T3755](#)

[Procurement Plan - RG-T3755](#)