

**REPORT TO CONGRESS ON
BENEFICIAL OWNERSHIP INFORMATION
PRACTICES AT THE MULTILATERAL
DEVELOPMENT BANKS**



A Report to Congress

in response to

SEC. 7029(f) of the Consolidated Appropriations Act, 2019

United States Department of the Treasury

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Report on Beneficial Ownership Information Practices at the Multilateral Development Banks April 2019

Introduction

The Treasury Department presents this report on Beneficial Ownership Information Practices at the Multilateral Development Banks (MDBs) in compliance with section 7029(f) of the Consolidated Appropriations Act, 2019. This report provides an update to the policies and practices that MDBs have implemented over the past fiscal year to enhance disclosure of beneficial ownership information in their respective institutional operations.

SEC. 7029(f) BENEFICIAL OWNERSHIP INFORMATION. — The Secretary of the Treasury shall instruct the United States executive director of each international financial institution to seek to require that such institution collects, verifies, and publishes, to the maximum extent practicable, beneficial ownership information (excluding proprietary information) for any corporation or limited liability company, other than a publicly listed company, that receives funds from any such financial institution: Provided, That not later than 45 days after enactment of this Act, the Secretary shall submit a report to the Committees on Appropriations on steps taken in fiscal year 2018 by the United States executive directors and the international financial institutions consistent with this subsection compared to the previous fiscal year.

Below are brief descriptions of the beneficial ownership information practices at each of the MDBs, emphasizing recent updates and recent efforts by the United States' Executive Directors.¹ All the MDBs recognize the importance of the legislation and are striving to respond to the legislation. The MDBs are strong proponents of disclosure and access to information, largely as a result of strong U.S. encouragement to do so.

Developments in Beneficial Ownership Information Practices in the Multilateral Development Banks (MDBs)

International Bank for Reconstruction and Development and the International Development Association

The World Bank (the Bank) provides sovereign loans to governments for the purposes of economic development. The situation at the Bank is similar to last year's report, as the Bank is monitoring implementation of its beneficial ownership pilot launched on November 1, 2017. The pilot program will run through the World Bank fiscal year 2020 and will collect and publish beneficial ownership data for all large procurements over certain thresholds financed by the World Bank (representing about 40 percent of Bank-financed procurements by value). Management will review and report to the Bank's Board on implementation progress, including any lessons learned, in fiscal year 2020.

¹ Please see the *2018 Report on Beneficial Ownership Practices at the Multilateral Development Banks* for greater context about beneficial ownership: [https://www.treasury.gov/resource-center/international/development-banks/Documents/Report to Congress on Beneficial Ownership at MDBs August 2018.pdf](https://www.treasury.gov/resource-center/international/development-banks/Documents/Report%20to%20Congress%20on%20Beneficial%20Ownership%20at%20MDBs%20August%202018.pdf)

Under the pilot program, the World Bank's Standard Procurement Documents require winning bidders to identify beneficial owners using thresholds for determining ownership and other definitions of control developed by the Financial Action Task Force (FATF). Borrowers are required to publish beneficial ownership information, along with other contract award information, on their websites and the information is published on the World Bank's website/systems.

The Bank will conduct verification efforts as needed when integrity red flags are triggered, or in other cases when extended due diligence is warranted. Interested stakeholders, including any member of civil society, may engage with the World Bank and their respective government on the published information. Misrepresentation of beneficial ownership information by the winning bidder may constitute a sanctionable offense under the Bank's Anti-Corruption Guidelines and will be reported to the Bank's Integrity Vice Presidency which may conduct a fraud investigation potentially leading to the company's debarment.

The World Bank shared this pilot with other MDBs interested in launching a similar program and actively discussed it with a broad range of stakeholders, and has kept the U.S. Treasury Department and the Office of the U.S. Executive Director abreast. One of its objectives is to contribute (together with other enhancements introduced with the Procurement Framework which became effective in July 2016), a level playing field for companies with sound corporate governance structures and high integrity standards.

International Finance Corporation

There are no significant changes to report from last year's report. The International Finance Corporation (IFC) invests in private sector entities conducting business in emerging markets and developing countries. As stated in last year's report, before it makes an investment, the IFC identifies all parties with a substantial interest in the entity. Generally, IFC identifies and conducts integrity due diligence (IDD) on those individuals who own or control five percent or more of an entity, including indirect and ultimate beneficial owners, as well as the top five direct owners as applicable. If the company is a fund, IFC must also conduct IDD on the general partner or fund manager, even if the general partner/fund manager does not meet those thresholds, as well as the general partner/fund manager's direct owners down to the five percent level and top five owners.

IFC staff conducts IDD, using various sources, to identify whether there are any integrity risks in the project. It conducts IDD on key entities in the project and its IDD is not confined just to the contracting party. IFC defines "integrity risk" as the risk of engaging with entities or persons whose background or activities may have adverse reputational and, often, financial impact on IFC. All clients in the portfolio are screened daily by a computerized screening system against various enforcement lists. IFC's compliance team periodically reviews certain projects to ensure that the IDD process has been properly followed.

IFC posts project descriptions on its website, which may also include the names of sponsors and major shareholders in the project company and other key entities, including beneficial ownership information where it is practicable. While striving for transparency, IFC is also cognizant of the need for confidentiality of some information and IFC the need to respect some privacy-related regulations in some countries.

In the most recent fiscal year, IFC has also strengthened periodic reporting of integrity risk issues to management and Board as part of improvements to strengthen its IDD processes. Other improvements include enhanced training offerings to staff and enhanced disclosure in Board papers. The Office of the United States Executive Director has encouraged this effort. The U.S. Treasury staff has also reinforced the importance of this legislation and the importance of increased transparency, particularly with regard to IFC's investments in financial intermediaries.

Multilateral Insurance Guarantee Agency

The Multilateral Insurance Guarantee Agency (MIGA) provides political risk insurance and credit enhancement guarantees to protect foreign direct investments against political and non-commercial risks in developing countries. MIGA follows IFC's practices with regard to identifying beneficial owners and conducting integrity due diligence.

Recent developments include enhanced computerized screening system allowing for more efficient and timely monitoring. The Office of the U.S. Executive Director continues to review MIGA's IDD as individual projects are considered for Board approval and continues to stay closely engaged with MIGA staff. Treasury staff met with MIGA staff this year to reinforce the importance of transparency of beneficial ownership information.

European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) invests in private sector entities and provides loans to sovereign governments. The situation at the EBRD regarding beneficial ownership remains largely consistent with last year's report. Like the other MDBs operating in the private sector, the EBRD conducts risk-based IDD on the companies in which it invests. EBRD staff is responsible for collecting and vetting beneficial ownership information based on information gathered through site visits, discussions with the client, and general knowledge of the region/sector, as well as internet and Bank for International Settlements searches.

In more complex cases the EBRD will commission a confidential external due diligence report. It will not proceed with a transaction without knowing who the beneficial owners are. Additionally, investments that involve politically exposed persons, clients with poor past business practices, or other high risk clients will trigger enhanced IDD. The EBRD publishes information on its project partners. The EBRD publishes beneficial ownership information where practicable. Within reason (for example where the number of small shareholders makes this impractical, or where a company is listed with very fluid ownership), EBRD identifies all the beneficial owners in projects being considered for Bank involvement.

In addition, the EBRD has carried out additional activities to help support the efforts to improve collection, verification and publication of beneficial ownership information. This includes serving as observers at the FATF Plenaries, running donor-sponsored capacity building in their countries of operation, and engaging in high-level events to further the importance understanding of the concept of beneficial ownership.

In 2018, the U.S. Director's office pushed EBRD to add language on contract disclosure to its new Access to Information Policy (due to replace the Bank's Public Information Policy), the final version of which will be approved in 2019. The U.S. Director's office also engaged in general discussions with EBRD Management on the requirements in the FY2018 (Section 7029(2)(b)) regarding accountability and transparency, including the collection, verification and publication of beneficial ownership information related to extractive industries and on-site monitoring during the life of the project.

African Development Bank

The African Development Bank (AfDB) provides both sovereign loans and makes investments in private companies. The AfDB is now implementing its revised procurement policy (updated in 2015) that improves the approach to the collection and publication of beneficial ownership information in the procurement process for sovereign operations. The new AfDB Operations Procurement Manual (OPM), which is publically available, includes a section on beneficial ownership. In addition, the AfDB has developed a guidance note on beneficial ownership and politically exposed persons, which is part of the Procurement Toolkit that that complements the revised procurement policy.

The new OPM and the additional guidance note, was prepared in close partnership with the World Bank, so that the approach at the two MDBs is closely aligned. Like the World Bank, the AfDB now requires that a successful bidder under an AfDB-financed contract above a specified monetary threshold disclose publicly its beneficial owners. Beneficial owners are any individual - or closely related individuals - who own or control 25 percent or more of the voting shares of the firm. The AfDB will consider the failure to provide this information or the provision of incorrect information as grounds for misrepresentation that may result in disqualification or other appropriate sanctions.

The Office of the U.S. Executive Director worked closely with AfDB management in the development of the OPM, and the Office of the U.S. Executive Director is continuing to work with AfDB management during the roll out of the improved manual and its implementation.

Regarding the non-sovereign investments, like the other MDBs, the AfDB conducts due diligence and enhanced due diligence for all non-sovereign entities and their ultimate beneficial owners, as guided by its Integrity Due Diligence Policy on non-sovereign operations and other applicable Bank policies and procedures. The AfDB screens these against all relevant lists. The Bank collects this information and discloses that which is practicable and that which is allowed under its disclosure policy.

Asian Development Bank

The Asian Development Bank (AsDB) provides both sovereign and non-sovereign lending. The AsDB's requirements related to beneficial ownership information focus on its private sector operations. Under AsDB rules, the project team seeks to identify one hundred percent of the beneficial ownership of a company. AsDB staff then verifies these owners through a desk review of the potential client using corporate registries, open and closed source databases and various search engines. Like other MDBs, the AsDB staff screen potential counterparties relevant lists.

Where there are shareholdings of five percent or more that are not identified or who remain unknown, or where shareholdings in publicly listed companies of ten percent or more are not identified, the Board is informed. In sovereign operations projects where the executing agency or implementing agency is not a government ministry or agency, there is also a requirement to identify any beneficial owner that is not state owned.

The Office of the U.S. Executive Director continues to advance United States policy in this area and consistently presses for integrity, high due diligence standards, and information disclosure in all projects. In late 2018, the Office of the U.S. Executive Director requested that AsDB's Office of Anti-Corruption and Integrity (OAI) and Private Sector Operations Department update the Board of Directors on Integrity Due Diligence (IDD) for non-sovereign operations and the implementation of AsDB's tax integrity policy – a key component of transparent beneficial ownership.

Inter-American Development Bank

For the IDB's sovereign operations, governments borrow the funds and the governments then enter into procurement contracts with companies. The situation at the IDB remains largely consistent with last year's report. The procurement arrangements are conducted by agencies or institutions of the borrowing governments in accordance with IDB procurement policies. The IDB publishes procurement data on its website for contract award winners (for public works, goods and services procured through International Competitive Bidding or amounting to US\$25,000 or more, as well as for all consulting contracts). The information on contracts includes data in IDB-financed sovereign guaranteed and technical assistance operations as it is reported by borrowers or beneficiaries. Information published includes the name of the firm, its location and the value of the contract, but this information does not include all the beneficial ownership information.

IDB Invest

The Inter-American Investment Corporation (IDB Invest) is a member of the IDB Group. It lends to and invests in private sector companies that conduct business in its regional developing member countries. In 2016, IDB Invest strengthened its Integrity Framework, in particular its due diligence procedures regarding tax information exchange risk related to companies or their "controlling shareholders" (defined as the power to direct the management or policies of the company through ownership, contract, or otherwise).

Like other MDBs investing in private sector entities, the IDB Invest identifies and conducts integrity due diligence (IDD) on entities and individuals who own or control directly or indirectly five percent or more of an entity (ten percent in the case of a publicly traded company). If the company is a fund, IDB Invest also conducts IDD on the general partner/fund manager, even if the general partner does not meet that threshold, as well as the general partner/fund manager's direct and indirect owners down to the five percent level.

IDB Invest screens the ultimate beneficial owners through relevant databases for integrity risk indicators. These include being considered a politically exposed person, being subject to economic or administrative sanctions, or being under criminal investigation or involved in administrative or civil proceedings that allege serious ethical or financial misconduct. Failure to provide information on beneficial owners disqualifies a company from receiving funding from IDB Invest (although there is an exception under the guidelines for clear mitigating circumstances, IDB Invest in practice has never granted an exception). IDB Invest also posts project descriptions on its website, which may include the names of sponsors and major shareholders in the company, including some beneficial ownership information.

The Office of the U.S. Executive Director for the IDB and IDB Invest continues to advance United States policy in this area and consistently presses for integrity, high due diligence standards and information disclosure in all projects. The Office of the U.S. Executive Director for the IDB and IDB Invest has advocated that the IDB and IDB Invest improve its collection, verification, and disclosure of beneficial information in future updates to the Access to Information and Environmental and Social Safeguard Policies of these institution.

The Office was also closely involved in the development of the Financial Intermediaries Action Plan and other action plans, and advocated for higher standards related to the disclosure of beneficial ownership information. In addition, the Office of the Executive Director helped organize an event at the Treasury Department where IDB Invest's Office of Integrity gave a presentation on its work.

Conclusion

In the past fiscal year, the MDBs have continued to advance their efforts to increase transparency and to ensure the integrity of their institutions through the collection and analysis of information that pertains to beneficial ownership. As outlined in this report, the United States strongly encourages and supports these efforts. Through obtaining and publishing this information, the MDBs augment their ability to monitor the recipients of MDB financing, and in the process, they lead by example and will encourage greater transparency and accountability on the part of other international and national financial institutions. The Treasury Department and the respective Offices of the U.S. Executive Director in each MDB will continue to empower the MDBs to accumulate and circulate pertinent information about beneficial ownership.