

**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, 2021

**United States Department of the Treasury
April 2022**

Report on Beneficial Ownership Information Practices at the Multilateral Development Banks

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, 2021, P.L. 116-260. This report provides an update on the policies and practices that the MDBs have implemented in FY2020 through June 2021 to enhance disclosure of beneficial ownership information in their respective institutional operations¹.

SEC. 7029(f) BENEFICIAL OWNERSHIP INFORMATION. — The Secretary of the Treasury shall instruct the United States executive director of each international financial institution to use the voice and vote of the United States to encourage such institution to collect, verify, and publish, 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 2020 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.² 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

International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)

The World Bank (referring to IBRD and IDA) continues to monitor the implementation of its Beneficial Ownership pilot launched on November 1, 2017. The pilot covers the World Bank's fiscal years 2018 through 2021³ and publishes beneficial ownership data for the winning bidders of procurements over certain thresholds (subject to review by the Operational Procurement Review Committee, which reviews the highest risk and value procurement) financed by World

¹ This report includes the reforms the International Financial Institutions took and U.S. engagement on this issue during FY20 and through June 2021. This report is also adding the North American Development Bank this year.

² 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

³ The World Bank's fiscal year runs from July 1-June 30.

Bank projects. These procurements are expected to represent approximately up to 40 percent of all World Bank-financed procurements by value. One of the objectives of this pilot is to contribute to a level playing field for companies with sound corporate governance structures and high integrity standards. World Bank Management reviews and reports to the Board of Directors on implementation progress, including any lessons learned. The next report will be presented in mid-2022.

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, in United Nations Development Business (UNDB, <https://devbusiness.un.org/>), the World Bank's external website (www.worldbank.org) and on the World Bank Procurement App.

The pilot's beneficial ownership requirements began to be applied to contracts awarded in projects approved after November 1, 2017. As of June 30, 2021, beneficial ownership information has been disclosed for nine eligible, awarded contracts with a combined value of approximately \$1.88 billion. The pilot covers around 37 planned ongoing procurements estimated at \$4 billion.

The World Bank conducts verification of beneficial ownership when integrity red flags are triggered or in other cases when extended due diligence is warranted. 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. To date, the World Bank indicates that the response to the pilot continues to be positive and that to date, they did not identify any particular issue or unintended consequences in the procurement process that triggered any red flags warranting further due diligence.

The Beneficial Ownership pilot is part of the Bank's strategy to enhance transparency and open contracting. The Office of the U.S. Executive Director has supported this effort and sought regular briefings to remain aware of the pilot's status. 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 robust information disclosure in all projects. The World Bank has shared information about this pilot with other Multilateral Development Banks interested in launching a similar program and has actively discussed it with a broad range of stakeholders, including the U.S. Treasury and U.S. companies.

International Finance Corporation (IFC)

The International Finance Corporation (IFC) is the part of the World Bank Group that invests in private sector entities conducting business in emerging markets and developing countries. Before it makes an investment, IFC identifies all parties with a substantial interest in the entity. Generally, IFC identifies and conducts integrity due diligence (IDD) on those entities and 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 entity is a fund, IFC

also conducts 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 and individuals involved in the project; IDD is not limited just to the contracting party. IFC defines "integrity risk" as any risk involved in engaging with entities or persons whose background or activities may create a risk of adverse reputational and, often, financial impact on IFC. All clients in the portfolio are screened daily by a computerized screening system against various enforcement lists⁴. IFC's compliance team periodically reviews certain projects to ensure that the IDD processes have 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 relevant or appropriate. IFC has also recently strengthened periodic reporting of integrity risk issues to management, the Audit Committee and the Board as part of improvements to strengthen its IDD processes. The Office of the U.S. Executive Director has encouraged these efforts and the U.S. Treasury staff has also emphasized to IFC management the importance of increased transparency, particularly with regard to IFC's investments in financial intermediaries. Considering IFC's operational environment, notably that it conducts operations with private sector companies, there are certain privacy, access to information and confidentiality restrictions in Board-approved policies and legal contracts limiting IFC's ability to disclose beneficial ownership information.

The Multilateral Insurance Guarantee Agency (MIGA)

There are no significant changes to report since last year's report. The Multilateral Insurance Guarantee Agency (MIGA) is the part of the World Bank Group that provides political risk insurance and credit enhancement guarantees to protect foreign direct investments against political and non-commercial risks in developing countries. Like the IFC, MIGA identifies beneficial owners and conducts integrity due diligence on project entities and individuals with a substantial interest (i.e., five percent threshold). MIGA continues to use computerized screening systems for efficient and timely project monitoring for emerging integrity risks. The Office of the U.S. Executive Director continues to review the results of MIGA's integrity due diligence as individual projects are considered for Board approval and stays closely engaged with MIGA staff.

European Bank for Reconstruction and Development

⁴ These enforcement lists include UN Security Council Sanctions list, plus other international recognized sanctions, regulatory and enforcement lists (including EU restrictive measures, OFAC, UK sanctions), plus its debarment and MDB cross debarment lists.

The European Bank for Reconstruction and Development (EBRD) invests in private sector entities and provides loans to sovereign governments. Its approach towards beneficial ownership remains largely consistent with last year's report. The EBRD has maintained its integrity standards through the pandemic and in its emergency lending, including by implementing resilience programs to ensure checks around Know Your Customer (KYC) and beneficial ownership are not compromised. Like the other MDBs operating in the private sector, the EBRD conducts risk-based IDD on the companies in which it invests. The EBRD will not proceed with a transaction without knowing who the beneficial owners are.

As the first step in the IDD process, the EBRD identifies all the beneficial owners in projects under consideration (other than where a very large number of small shareholders makes this impractical for those with *de minimis* holdings, or where a listed company's ownership is identified as being very fluid) and provides such information in financing proposals. All staff involved in EBRD projects undergo in-person training on the guidelines. EBRD staff are responsible for collecting and vetting beneficial ownership information based on information and documentation gathered through site visits, discussions with the client, and general knowledge of the region/sector, as well as Business Information Services (BIS) searches. The Domiciliation Unit within the EBRD Office of the Chief Compliance Officer has, in projects involving offshore ownership structures, further facilitated and enhanced the review of beneficial ownership.

EBRD investments that involve politically exposed persons, complex ownership structures, clients with poor past business practices, or other high-risk clients will trigger enhanced IDD. In more complex cases the EBRD will commission a confidential external due diligence report.

The EBRD publishes information on its project partners in accordance with the Bank's Access to Information Policy (AIP) and Project Summary Documents (PSDs). The EBRD publishes beneficial ownership information where practicable.

The EBRD uses the FATF definition of beneficial ownership:

“Beneficial owner refers to the natural person(s) who ultimately own(s) or control(s) a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement.”

In addition, the EBRD has carried out additional activities to help support efforts to improve collection, verification, and publication of beneficial ownership information. This includes serving as an observer at the FATF, the Eurasian Group (or “EAG” which is the Eurasian FATF-style regional body), and Moneyval Plenaries (a Council of Europe permanent monitoring body referred to as “the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism.”). The EBRD has applied to become an observer at MENAFATF (the MENA region's FATF-style regional body) and is part of the FATF working group to enhance MENAFATF's development. The EBRD has organized donor-sponsored capacity building in their countries of operation and engaged in high-level events to further the important understanding of the concept of beneficial ownership.

The Office of the U.S. Executive Director continues to engage with the EBRD in the review of individual operations and has raised objections, for example in June 2021, in an EBRD

investment in the Sophia airport development project in Bulgaria which involved a U.S. Specially Designated National. The Office of the U.S. Executive Director will continue to monitor progress on expanding transparency in the use of EBRD funds.

African Development Bank

The African Development Bank (AfDB) provides both sovereign and private sector lending. The AfDB continues to implement its revised procurement policy (updated in 2015), which improves its approach to collecting and publishing beneficial ownership information in the procurement process for sovereign operations. The new AfDB Operations Procurement Manual (published in 2018), which is publicly available, implements the 2015 policy and 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 complements the revised procurement policy.

The Operations Procurement Manual and the accompanying guidance note (published on the Bank's website) were prepared in close partnership with the World Bank, and the approaches followed by the two MDBs are closely aligned. Like the World Bank, the AfDB now requires that a successful bidder for an AfDB-financed sovereign contract above a specified monetary threshold disclose publicly its beneficial owners. The applicable thresholds are set down for the relevant Bank-financed transaction based on country conditions identified in the applicable Bank's Procurement Assessment Report (BPAR) as well as the FATF country-level assessment. Beneficial owners are defined as any individual—or closely-related individuals—who own or control 25 percent or more of the voting shares of the entity. This requirement and a form to be completed by the winning bidder have been included in the latest version of the Bank's Standard Bidding Documents, which are published on the Bank's website and are currently being used by Borrowers. The collected information will then be published by the AfDB and the borrower. The AfDB will consider the failure to provide this information or the provision of incorrect information as a potential misrepresentation that may result in disqualification or other appropriate sanctions.

For private sector projects, like the other MDBs, the AfDB conducts standard integrity due diligence and enhanced due diligence, as appropriate, for all clients 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 all clients and all beneficial owners on all non-sovereign operations against all relevant lists. The Bank collects this information and discloses that which is practicable and that which is allowed under its disclosure policy.

The AfDB continues to enhance its screening capacity of beneficial ownership information of clients with the procurement of additional due diligence tools. A Bank wide Master Screening tool will be launched later this year that will be accessible to all Bank Staff for both ad hoc and automated screening of clients' information, including shareholders and ultimately the information of beneficial owners.

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 robust information disclosure in all projects. The Office has worked closely with AfDB management in the

development of the Operations Procurement Manual and is continuing to work with AfDB management during the roll out and implementation of the manual. The Office of the U.S. Executive Director has also promoted greater upstream involvement of the AfDB's Integrity and Anti-Corruption Department in the Integrity Due Diligence in individual projects.

Asian Development Bank

The Asian Development Bank (AsDB) provides both sovereign and private sector lending. The AsDB's requirements related to beneficial ownership information focus on its private sector operations. AsDB rules require staff to carry out Integrity Due Diligence (IDD) and 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, AsDB staff screen potential counterparties and their beneficial owners against relevant lists, as noted above.

Where there are shareholdings of five percent or more that are not identified or the owners of which remain unknown, or where shareholdings in publicly listed companies of ten percent or more are not identified, the Board is informed. Beneficial ownership information is published, to the extent practicable, whenever the beneficial owner's shareholdings are discussed in the documents that are approved by the Board (referred to as the Report and Recommendation of the President).

In sovereign projects where the executing agency or implementing agency is not a government ministry or agency, the borrower must identify any beneficial owner that is not state-owned. For the procurement for sovereign projects, the bidding process is governed by the AsDB's procurement guidelines, which adopt international standards on bidding, focusing on bidder eligibility, technical qualifications and financial proposals. Bidders are checked against AsDB's debarment list before being awarded a contract, as is done in other MDBs. Similar to other MDBs, the AsDB's debarment list includes firms that have been cross-debarred in accordance with the "Agreement on Mutual Enforcement of Debarment Decisions" among AsDB, EBRD, World Bank, IADB and AfDB. AsDB is monitoring the World Bank's ongoing pilot on the disclosure of beneficial ownership in high value procurement and is looking forward to reviewing the evaluation of the World Bank's pilot to understand lessons learned.

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 robust information disclosure in all projects. The Office of the U.S. Executive Director has urged AsDB to include ownership structures and beneficial ownership information in individual proposals that are published to the AsDB website and to balance the desire of some clients for confidentiality agreements against principles of openness and transparency.

Inter-American Development Bank

Procurement arrangements for the Inter-American Development Bank's (IDB) sovereign operations are conducted by 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 published on its website includes the name of the firm, its location, and the value of the contract.

IDB procurement policies that took effect in 2020 establish that executing agencies in international competitive bidding processes may request beneficial ownership information from the company that will be recommended for award before the publication of the award of the contract. Per these policies, the information that would be requested includes the names of “Beneficial Owners” defined as individuals who directly or indirectly: (i) hold 25 percent or more of the shares of the company; (ii) hold 25 percent or more of the voting rights; or (iii) have the right to appoint a majority of the board of directors or equivalent governing body of the company selected for the contract award. This information will be published by the borrower on the United Nations Development Business (UNDB) website (<https://devbusiness.un.org/>) and will be forwarded for publication on the website of the IDB.

IDB Invest

The Inter-American Investment Corporation (IDB Invest) is the private sector arm of the IDB. It lends to and invests in private sector companies that conduct business in regional member countries. IDB Invest’s integrity due diligence (IDD) guidelines require the identification and screening of all beneficial owners holding, directly or indirectly, five percent or more of the counterparty. If the counterparty or a beneficial owner of the counterparty is publicly traded, then those owners who hold a ten percent or greater interest in the publicly traded company are also identified and screened.

IDB Invest screens using relevant databases to identify integrity risks. These include being: (i) considered a politically exposed person; (ii) subject to economic or administrative sanctions; (iii) under criminal investigation; or (iv) 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. On its public website, IDB Invest posts project descriptions that may include the names of sponsors and major shareholders in the relevant company as well as beneficial ownership information.

The IDD relevant to beneficial ownership may also analyze whether a company or its controlling shareholders use cross-border corporate structures, an exercise that often includes assessments of certain tax-related risks (*e.g.*, use of offshore financial centers). Additionally, if a fund is receiving the loan, IDB Invest conducts IDD on the general partner/fund manager—even if the general partner does not meet the five percent ownership threshold—and in some cases, on the general partner/fund manager’s direct and indirect owners.

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, as well as the presumption of maximum disclosure and transparency in all IDB Group policies.

North American Development Bank

The North American Development Bank (“NADBank”) is a binational regional development bank headquartered in San Antonio, TX. It was established together with its sister institution the Border Environment Cooperation Commission (BECC) in 1994 under the former North American Free Trade Agreement (NAFTA). NADBank and BECC merged into a single institution in 2017. The United States and Mexican governments capitalize the NADBank in equal part and share equal representation on the Board of Directors. NADBank provides grants, loans, and technical assistance for environmental infrastructure in the U.S.-Mexico border region. It prioritizes projects in the water, solid waste management, air quality, energy, and basic urban infrastructure sectors.

Consistent with its Money Laundering Prevention and Know Your Client policy, NADBank gathers information from project sponsors, additional sources of funding, and major contractors and parties directly involved with a project seeking NADBank funding. NADBank also gathers information on parties owning 25% or more of such entities. NADBank collects information on the ownership structure and key controllers during its initial due diligence phase and seeks updates to this information prior to annual disbursements and after any changes to the ownership structure. NADBank validates this information through various documents depending on the structure, including incorporation documents, public filings and, in the case of public projects, government decrees.

For every project it considers for approval, NADBank publishes on its webpage a certification and financing proposal that summarizes all relevant project information, including the name of the project sponsor and of any special purpose corporation that may be involved in project implementation. The Board of Directors receives the full document which includes the environmental and technical feasibility of the project, the loan amount, and a general overview of the financial criteria evaluated. This document does not include any details regarding the corporate structure or ultimate beneficial ownership of a project. This is an area that Treasury will engage with NADBank management to provide for more transparency on ultimate beneficial ownership structures.

Conclusion

The MDBs continue to improve their transparency and accountability in their institutions through the collection and analysis of beneficial ownership information. Through obtaining and presenting this information for projects and on specific websites, the MDBs proceed to make progress in augmenting their ability to screen and monitor the recipients of MDB financing. In the process, the MDBs lead by example and encourage greater integrity, due diligence, and accountability in other international financial institutions. The Treasury Department and the respective Offices of the U.S. Executive Director in each MDB will continue to encourage the MDBs to collect and verify pertinent information about beneficial ownership.