

**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, 2018

United States Department of the Treasury
August 2018

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Multilateral Development Banks
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Introduction

The Treasury Department presents this report in compliance with section 7029(f) of the Consolidated Appropriations Act, 2018. This report provides an update on the actions that multilateral development banks (MDBs) have taken since the previous fiscal year to advance disclosure of beneficial ownership information in the MDBs' own 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 2017 by the United States executive directors and the international financial institutions consistent with this subsection compared to the previous fiscal year.

Below are the updates of the specific beneficial ownership information practices at each of the MDBs, highlighting actions taken since the last report, and highlighting efforts by the United States' Executive Directors.¹

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

International Bank for Reconstruction and Development and the International Development Association

The Office of the U.S. Executive Director at the World Bank Group has sought to advance the World Bank's handling of beneficial ownership information collection, verification and publication and has worked since the last report to advance United States policy in this area. The Office of the U.S. Executive Director consistently presses integrity, high quality due diligence standards, and information disclosure in all projects.

In part as a result of encouragement from the United States, an important development in the past fiscal year is that for its sovereign lending operations (through the International Bank for Reconstruction and Development or IBRD, and the International Development Association or IDA), the World Bank launched a beneficial ownership data pilot system on November 1, 2017. The Office of the U.S. Executive Director organized meetings between the World Bank staff and

¹ Please see the *2017 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 MDB Beneficial Ownership Practices August 2017.pdf](https://www.treasury.gov/resource-center/international/development-banks/Documents/Report%20to%20Congress%20on%20MDB%20Beneficial%20Ownership%20Practices%20August%202017.pdf)

Treasury officials in order to describe the pilot. The pilot will cover World Bank fiscal years 2018 through 2020 (the World Bank fiscal year runs from July 1-June 30), and will collect and publish beneficial ownership data for all procurements related to World Bank projects over certain thresholds (about 40 percent of Bank procurements by value).² The World Bank Procurement Regulations for Investment Project Financing and the World Bank Standard Procurement Documents have been updated to operationalize the pilot and are available on the World Bank Procurement external website.

Under the pilot program, the World Bank's standard bidding documents have been amended, and winning bidders are required to provide beneficial ownership information using a template set by the World Bank. The winning bidder will be required to identify beneficial owners using thresholds for determining ownership and definitions of control developed by the Financial Action Task Force (FATF).³ Borrowers are required to publish beneficial ownership information, along with other contract award information, on their websites and the information will be published on the World Bank's website/systems. While this information is not verified on a routine basis, the World Bank may conduct verification when integrity red flags are triggered, or in other cases when extended due diligence is warranted. Online publication is important so that interested stakeholders, including local citizens and members of civil society, can engage with the World Bank and their respective government on the information in the report. The World Bank will review and report to the Board on this pilot in fiscal year 2020, before then determining a future direction.

Although the World Bank is not actually a party to these contracts—the contracts are between the borrowing government and the company that wins the procurement bid—the winning companies are subject to the World Bank's anti-fraud and corruption requirements. In addition, if a company misrepresents beneficial ownership information, this will be considered noncompliance and be reported to the Integrity Vice Presidency. The misrepresentation could be subject to a fraud investigation and lead to the company's debarment.

To support increased harmonization with other multilateral development banks (MDBs), the World Bank has presented its pilot to the Heads of Procurement of the MDBs, many of whom are also exploring options to improve beneficial ownership information reporting.

International Finance Corporation

The International Finance Corporation (IFC) invests in private sector entities conducting business in emerging markets and developing countries. 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

² These thresholds are longstanding triggers for prior reviews by the Bank procurement team to ensure that the borrower is complying with Bank procurement policies. The thresholds are country specific and are an approximation by the Bank to determine when a public procurement is considered "significant". While a prior review is being conducted, the borrower cannot proceed with the procurement process until it gets an all-clear from the Bank.

³ Following the recommendation of the Financial Action Task Force, a controlling interest is defined as 25 percent of voting shares/rights or the right to appoint a majority of the bidder's board of directors or equivalent governing body.

more of an entity, including indirect and 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. 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. Portfolio clients are screened daily by a computerized screening system against various sanctions, watch, regulatory, and law 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 company, including some beneficial ownership information, but generally does not publish beneficial ownership information.

In the most recent fiscal year (in 2017 and 2018), IFC made a number of improvements to strengthen its IDD processes. These improvements include the streamlining and simplification of its computerized screening system; efforts to improve data quality; and the introduction of a new system for capturing integrity risks and beneficial ownership information. Other improvements include enhanced training offerings to staff and enhanced disclosure in Board papers.

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.

Before it provides a guarantee, MIGA identifies all parties with a substantial interest in the project. Generally, MIGA identifies all beneficial owners and conducts integrity due diligence (IDD) on those individuals who own or control five percent or more, including indirect and beneficial owners, in the project structure. If the company is a fund, MIGA also conducts IDD on the general partner or fund manager, even if the general partner/fund manager does not meet the five percent threshold, as well as the general partner/fund manager's direct owners.

MIGA staff conducts due diligence, using various sources, to identify potential integrity risks in the project. MIGA defines "integrity risk" as the risk of engaging with entities or persons whose background or activities may present adverse reputational risks for the agency. Portfolio clients are screened regularly by a computerized screening system against various international sanctions, watch, regulatory, and law enforcement lists. In 2017 and 2018, MIGA enhanced its computerized screening system allowing for more efficient and timely monitoring.

MIGA posts project descriptions on its website, which may include the names of sponsors or major shareholders (i.e., some beneficial ownership information). In general, however, MIGA does not publish beneficial ownership information. 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 to understand how the recent computerized screening system is working in practice.

European Bank for Reconstruction and Development

Similar to the IFC, the European Bank for Reconstruction and Development (EBRD) invests primarily in private sector entities and conducts risk-based IDD on these companies. 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 some of the 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.

In 2017, the U.S. Executive Director's office was successful in encouraging the EBRD to add language on contract disclosure to its new extractive mining industries strategy. The U.S. Executive Director's office also engaged in general discussions with EBRD Management on the requirements in Section 7029(b)(2) of the FY 2018 appropriations act regarding accountability and transparency, including the collection, verification and publication of beneficial ownership information related to extractive industries.

African Development Bank

The African Development Bank (AfDB) Board of Directors approved a revised procurement policy in 2015 that improves the approach to the collection and publication of beneficial ownership information. To this end, the AfDB Operations Procurement Manual (OPM), which is expected to be publicly available near the end of 2018, is expected to include 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 the AfDB is developing for the implementation of its revised procurement policy. The Office of the U.S. Executive Director has been closely engaged with AfDB management as the OPM was developed and the Office of the U.S. Executive Director will continue to encourage AfDB management to roll out the improved manual publicly as soon as possible.

The anticipated guidelines, which have been harmonized with those of the World Bank, will require that a successful bidder under an AfDB-financed contract above a specified monetary threshold disclose publicly its beneficial owners. 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 firm. Solicitation and request for proposal documentation, which are currently being revised and harmonized with those of the World Bank, will require winning bidders or proposers to agree to identify beneficial owner(s), including politically exposed persons. 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 AfDB also conducts due diligence for non-sovereign entities that it identifies as potential partners, taking into consideration the provisions of its Integrity Due Diligence Policy on Non-Sovereign Operations and other applicable Bank policies and procedures. Specifically, it conducts enhanced due diligence to verify and ensure the identification of the source of funds being received or to be received by the Bank.

Asian Development Bank

The Asian Development Bank's (AsDB) 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 Lexis Diligence, World Check, Factiva, Dow Jones Risk and Compliance, and various internet search engines. Additionally, staff screen potential counterparties against the UN Security Council consolidated sanctions list, the Office of Foreign Assets Control (OFAC) Specially Designated Nationals & Blocked Persons Lists, as well as other sanctions 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 at the AsDB and consistently presses for integrity, high due diligence standards and information disclosure in all projects. In 2016, the Office of the U.S. Executive Director took a leading role in shaping AsDB's tax integrity policy - a key component of which addresses the issue of transparently disclosing beneficial ownership – in addition to encouraging AsDB to provide technical assistance to borrower countries on implementing best practices in tax transparency.

Inter-American Development Bank

For the IDB's sovereign operations, governments borrow the funds and the governments then enters into procurement contracts with companies. The procurement arrangements are conducted by agencies or institutions of the borrowing governments in accordance with IDB procurement policies; the IDB is not a party to those contracts. 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 beneficial ownership data.

IDB Invest

IDB Invest (formerly known as the Inter-American Investment Corporation (IIC)) 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).

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. IDB Invest defines “integrity risk” as the possibility that a person or entity engages in serious ethical or financial misconduct in connection with an IDB Invest operation. 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). The 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.

In 2017, the IDB-Office of Institutional Integrity (OII) that manages the IDB Group’s work on integrity issues was closely involved in IDB Invest’s transactions. OII had 627 engagements with IDB Invest in 2017; each engagement represents an instance where OII provided advice and guidance to IIC during the project preparation or supervision phase. In 2017, IDB Invest dropped or placed on hold 16 projects because of integrity or reputational risks, including ten instances related to Know Your Customer due diligence.

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 was closely involved in the development of the Financial Intermediaries Action Plan and other action plans, and advocated for high standards related to the disclosure of beneficial ownership information.

Conclusion

During the past year, the MDBs have continued efforts to reduce risk and ensure the integrity of their institutions through the collection of beneficial ownership information. As noted above, the United States strongly supported these efforts. Collecting and publishing this information will

significantly increase the ability of MDBs to track who is receiving MDB financing and may encourage greater transparency on the part of other international or country institutions as well. The Treasury Department and the respective Offices of the U.S. Executive Director in each MDB will continue to encourage the MDBs to publish as much information about beneficial ownership as they can.