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INTEGRITY RISK MANAGEMENT FOR FUNDS

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Presentation Agenda

THE OFFICE OF INSTITUTIONAL INTEGRITY AND THE SANCTIONS SYSTEM

- *Key integrity due diligence aspects*

INTEGRITY RISK MANAGEMENT FOR FUNDS

- *Overview*
- *Investors and investees*
- *Origination and supervision*

The Office of Institutional Integrity

The Office of Institutional Integrity (OII) is an independent office of the IDB Group created to safeguard IDB Group-financed projects and services throughout the transaction cycle.

- Private Sector Prevention
- Public Sector Prevention
- Anti-Money Laundering (AML)
- Investigations

Part of the IDB Group Sanctions System

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Integrity Risk

Integrity risk refers to the possibility that an individual or entity engages in serious ethical or financial misconduct in connection with an operation. This includes:

- Prohibited Practices
- Money laundering / Terrorism financing
- Tax evasion and abusive tax practices

Such actions harm countries, markets, and individuals, and undermine the IDB's development goals and reputation.

Prohibited Practices

- **Corrupt Practice:** Offering or soliciting anything of value to improperly influence actions.
- Fraudulent Practice: Misrepresenting facts to obtain a benefit or evade obligations.
- **Coercive Practice:** Harming or threatening to influence actions.
- **Collusive Practice:** Agreements intended to improperly influence decisions.
- **Obstructive Practice:** Actions that hinder IDB investigations.
- **Misappropriation**: Use of IDB funds/resources for unauthorized purposes.

The IDB Group has a **Zero Tolerance Policy** against Prohibited Practices

Integrity Risk Management

Integrity due diligence is essential for identifying and mitigating risks. It includes three core elements:

1. **Know Your Customer / Customer Due Diligence** (KYC/CDD)
2. **AML/CFT Compliance** Program Reviews
3. **Structural Integrity** Reviews

KEY ASPECTS

- Ultimate beneficial owners
- Politically exposed persons
- Sanctions screening
- Adverse media
- Compliance programs
- Investigations and enforcement activities
- FATF lists and AML jurisdictional risks
- Global Forum ratings and tax information exchange risks

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Integrity Risk Management- Overview

This presentation outlines an **Integrity Risk Management Policy for Funds**, detailing the processes, evaluations, and reporting requirements to ensure ethical investments and mitigate potential risks. We'll explore the key steps involved in screening, assessing, and monitoring investee companies for integrity risks.

- **Step One** — Gathering Information and Screening
- **Step Two** — Evaluation of Integrity Risks
- **Step Three** — Reporting
- **Step Four** — Investee Company Commitments
- **Step Five** — Portfolio Monitoring

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Gathering Information

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1 **Screening**
Databases and online searches

2 **Scope**
Names, titles, jurisdictions and percentages

3 **Relevant Entities**
Persons with a connection to the company that could be a source of integrity risk or associated reputational impact to the fund

4 **Documentation**
Negative or adverse screening results must be documented in an Integrity Risk Assessment Report and analyzed for Integrity Risks, Red Flags and mitigating or aggravating circumstances

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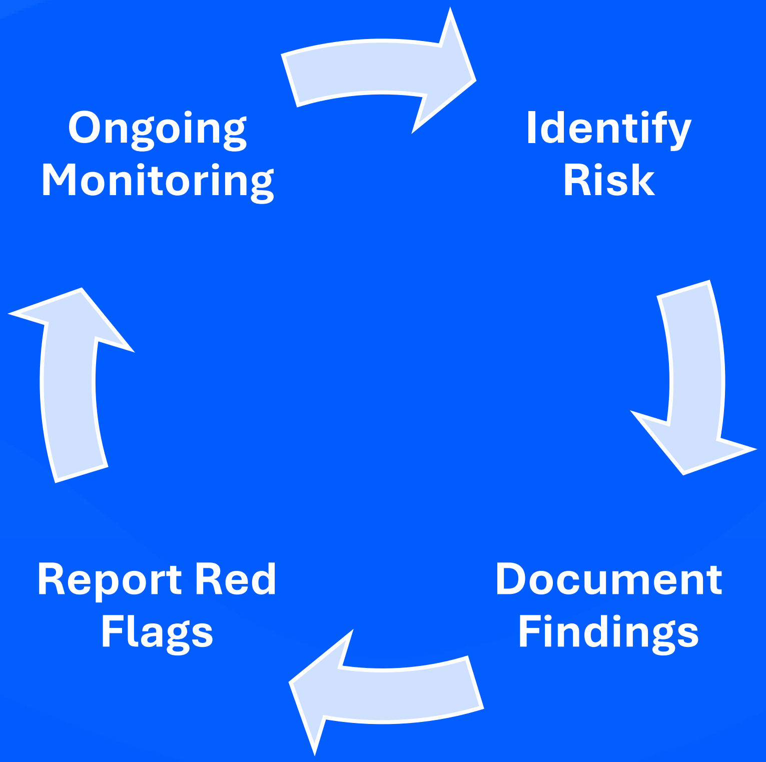
Evaluation of Integrity Risks



Integrity Red Flags Indicators

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1 **Inability to Identify Beneficial Owner**
Lack of transparency in ownership structure should be disqualifying factor, absent clear mitigating circumstances.

2 **Criminal, Civil, or Regulatory History**
Convictions, ongoing investigations, or regulatory findings related to serious crimes or misconduct are significant red flags.

3 **Presence on Sanctions Lists**
Any person or entity appearing on Internationally Recognized Sanctions Lists should be disqualified, barring clear mitigating factors.

4 **Politically Exposed Persons**
Connection of a Politically Exposed Person to an investee company warrants further review and scrutiny.

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Mitigating and Aggravating Circumstances

Mitigating Factors

- Significant time elapsed since past associations or practices
- Evidence of good behavior and absence of new allegations
- Implementation of a robust Compliance Program
- Adoption of internationally accepted business practices and corporate governance reforms

Aggravating Factors

- Recent or ongoing criminal investigations
- Multiple instances of misconduct or regulatory violations
- Lack of transparency or cooperation in addressing concerns
- Continued association with high-risk individuals or entities

Integrity Reporting

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1 **PRE-INVESTMENT**

- Integrity and reputational risks should be fully disclosed to the Fund's Investment Committee.
- Awareness of matters that may give rise to integrity or reputational risk should be brought immediately to the attention of the Fund's Investment Committee, which will then advise on further steps to be taken, which may include obtaining external opinions.
- The Fund Parties should seek legal advice, if necessary.

2 **PERIODICAL ONGOING REPORTING**

- An assessment of the adequacy of the overall implementation the Fund's Integrity Risk Policy
- Project-specific reporting if necessary

Investee Commitments

- The documents executed with the Investee Companies and in connection with the investments shall include provisions referring to **compliance with any Applicable Laws**, including **anti-corruption and anti-money laundering** laws.
- The agreements with an Investee Company shall seek **to mitigate any Integrity Risk identified**.
- A transaction that presents **heightened Integrity Risk should include specific conditions** to be satisfied either prior to signing or disbursement or linked to tranches with a specific timetable.
- The Fund Parties may require an Investee Company to implement a **Compliance Program**, to adopt **corporate governance codes and standards** within a specific timeframe or require a client to revise its ownership structure prior to close to permit transparency of ownership or other condition precedent which aims to mitigate the heightened Integrity Risk.

Integrity Reporting

1. All transactions will be monitored for *Integrity Risks* throughout the life of the project

2. During the monitoring stage, the Fund Parties should ***verify any integrity-related covenants or conditions*** agreed with the Investee Company are properly implemented

Integrity Red Flags Indicators

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1 Structured Integrity Risk Management Process
Fund managers should have policies and documented integrity risk management activities

2 Thorough Due Diligence
Fund managers should conduct integrity due diligence

3 Ongoing Monitoring and Incident Response
Fund managers must monitor compliance and reassess integrity risks if needed

4 Robust Governance and Reporting Obligations
Fund managers should regularly report to report to the Investment and Advisory Committees, both during due diligence and throughout the investment lifecycle.

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Thank you

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