**2009 Annual Report on Investigation
and Anticorruption Activities**

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I. Executive summary

1. The Investigation Section of the Office of Audit and Oversight (OA/IS) has a mandate to investigate alleged irregular practices, namely (i) fraud and corruption, in relation to entities, contractors and non-staff individuals applying for or participating in an IFAD-financed project or headquarters-related contract; and (ii) staff misconduct, pursuant to the adoption by the Executive Board in December 2005 of the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (EB 2005/85/R.5/Rev.1). Implementation of this policy, along with the establishment of a Sanctions Committee, has aligned IFAD with best practices in this area of other United Nations agencies and the main multilateral financial institutions.

2. Twenty-seven new allegations were received in 2009, compared with 30 in 2008. Fifty-nine per cent were external, mostly involving bidding irregularities and procurement-related fraud. Emphasis has been placed on promoting awareness of the anticorruption policy at every stage of the project cycle, thus putting the anticorruption message in the foreground.

3. Of the 33 active cases in 2009 (six pending from end-2008 and 27 new), 27 were completed (10 internal, 17 external). Of these 27, four cases were concluded as **substantiated**, one of which was internal and three of which were external. These cases involved bid manipulation, fraud involving project recruitment, misconduct and a web-based fraud involving the use of the IFAD name. Nine cases were referred to Member State Governments or to IFAD divisions for investigation and/or appropriate managerial action. Six cases (three internal and three external) were closed as **unfounded**. Summaries of these cases are included in part IV of this report.

4. OA/IS was able to promote the anticorruption agenda in-house and support the move to direct supervision through participation in training events with the Programme Management Department (PMD) and other departments. Such events included presentations to headquarters staff on lessons learned in corruption investigations, and a seminar by Transparency International on instruments to increase transparency and accountability in IFAD's portfolio.

5. Efforts continued for more visible anticorruption action in IFAD's field operations. OA/IS worked particularly closely with the relevant divisions (West Africa and Asia), delivering anticorruption presentations to project implementation staff and partner institutions involved in more than 60 projects.

6. There are many examples of effective cooperation between OA/IS and the PMD divisions, and OA/IS will continue awareness-raising efforts with PMD staff to promote the anticorruption agenda in IFAD operations. This will include further support for direct supervision by participating in IFAD-sponsored training and information workshops with project staff to highlight the potential impact of corruption on IFAD's effectiveness. OA/IS will require continued support from Management, including positive recognition for staff who demonstrate their commitment to anticorruption efforts.

II.   Investigation activities

A.   Caseload and statistics

7.   Allegations of irregular practices pertaining to activities involving staff and consultants are referred to as internal cases, whereas allegations of irregular practices in connection with IFAD-financed projects and programmes are generally referred to as external cases. IFAD takes all possible measures not only to protect individuals who submit allegations of fraud, corruption or misconduct from reprisals, but also to protect individuals against unfair or deliberately false accusations. Reprisals and malicious allegations by staff members are pursued as potential misconduct.

8.   Completed cases are classified as:

- **Substantiated** when a preponderance of evidence has been found to indicate that irregular practices have occurred;

- **Unsubstantiated** when the evidence obtained is insufficient either to substantiate or to refute an allegation of irregular practices; or

- **Unfounded** where evidence was sufficient to refute the allegation.

9.   The 2009 total caseload of 33 included six cases carried over from the previous year; all were brought to a conclusion during 2009 (table 1). Twenty-seven cases were concluded in 2009, of which six were closed as **unfounded**, eight were concluded as **unsubstantiated**, and nine were referred either to IFAD divisions or to government authorities for appropriate action/follow-up. Investigations in respect of four cases were concluded as **substantiated**, including one allegation of misconduct, one of web-based fraud, and two regarding project procurement-related fraud.

Table 1
Active caseload figures in 2009

	Internal	External	Total
Cases pending from 2008	1	5	6
Cases received in 2009	10	17	27
Total active cases in 2009	**11**	**22**	**33**
Cases closed in 2009	11	16	27
Cases pending at year-end 2009	**0**	**6**	**6**

10.   IFAD staff members constituted the majority of complainants in 2009 (55 per cent). While most complaints were reported in person (48 per cent), e-mail was also a popular reporting method (26 per cent); 11 per cent of complainants used the IFAD website. The number of external allegations received in 2009 is equal to that of 2008, with a slight decrease in internal complaints (figure 1).

Figure 1

**Internal vs External Cases**
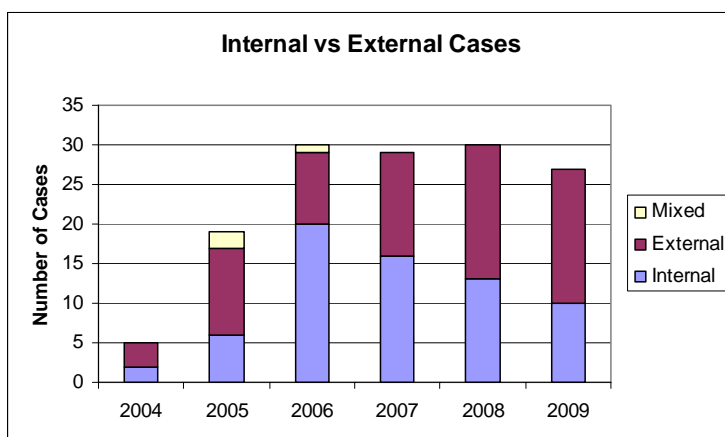
11.   Allegations received in 2009 mainly involved corruption, procurement fraud, misuse of funds, misconduct and recruitment irregularities (table 2 and figure 2). OA/IS does not investigate procedural breaches or mismanagement per se in IFAD projects unless such allegations indicate fraud, corruption or impropriety. Procedural breaches and mismanagement allegations are referred to the appropriate IFAD senior managers for follow-up.

Table 2
Nature of allegations received in 2009

Nature of allegation	Internal	External	Total
Corruption (kickbacks, extortion, bribery)	0	4	4
Procurement fraud	0	6	6
Fraud (other)	1	0	1
Misuse of funds	1	6	7
Misconduct	3	0	3
Conflict of interest	1	0	1
Recruitment irregularities	4	0	4
Other	0	1	1
Total	**10**	**17**	**27**

* The category "other" includes complaints of fraudulent e-mails and web-based irregularities.

Figure 2

Nature of Allegations
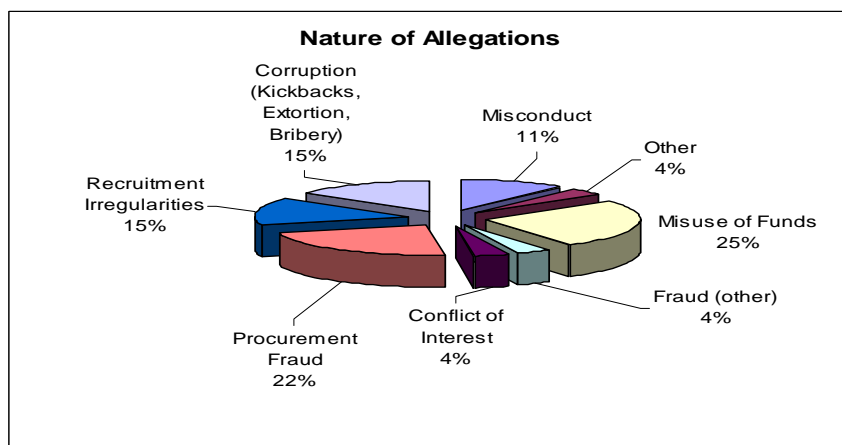
III. Implementation of the anticorruption policy

A. Awareness-raising and sensitization

12. OA continued systematic training for staff both at headquarters and in projects funded by IFAD. This activity was launched in 2007 in coordination with PMD to coincide with the move towards direct supervision of projects. It focuses on the costs of corruption and the identification of common fraud schemes.

13. Awareness-raising events included presentations to staff at headquarters on lessons learned in corruption investigations, and participation in loan administration and financial implementation training workshops held in Sri Lanka, Nigeria, The Gambia and at the annual portfolio review in Bangkok, reaching staff in projects and partner institutions of over 60 projects. OA distributed its revised 2009 brochure entitled "IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations" to several additional PMD workshops, training sessions and supervision missions in all five regions. Copies of the brochure – which is available in all IFAD languages – are often requested in conjunction with start-up workshops and other training sessions, illustrating commitment to the anticorruption agenda by PMD managers and staff. Finally, Transparency International made a presentation to IFAD staff on instruments to increase transparency and accountability in IFAD's portfolio.

14. The collaborative approach pursued by OA/IS is aimed at eliciting greater willingness within the organization to expose risks of fraud, corruption and misconduct. Examples of excellent cooperation by PMD have been noted and continued dialogue and information-sharing are strongly encouraged. Responsiveness by Management, along with updated policies, consistency in enforcing disciplinary rules and promotion of the anticorruption agenda in projects and programmes will help bring about cultural change. Further awareness-raising activities are planned for 2010.

15. OA/IS has also followed developments relating to implementing anticorruption policies within the United Nations and multilateral financial institution communities, as well as more broadly in civil society. In June 2009, OA/IS participated in the Annual Conference of International Investigators in Jordan, along with representatives of these institutions.

B. Update of procedures and legal instruments

16. OA/IS continued to contribute to the updating and streamlining of the General Conditions for Agricultural Development Financing as part of the working group that is reviewing the IFAD Project Procurement Guidelines. An annotated outline of the proposed revised IFAD Procurement Guidelines is expected to be presented to the Audit Committee and Executive Board at its April 2010 session.

C. What's next in 2010

17. Awareness-building efforts will continue to ensure that all staff members are aware of their obligation to report allegations and suspected irregularities and cooperate fully in the investigation of such matters. OA will also pursue all instances of non-compliance with such obligations, which under the IFAD legal framework constitutes staff misconduct.

18. The strategy of engagement and collaboration with PMD that has formed the backbone of OA/IS awareness-building in the field will also continue. OA plans to further increase its visibility by developing an anticorruption and audit training module to disseminate more effectively the anticorruption policy at the project level using examples based on case

experience. This will help to overcome reluctance and/or barriers experienced by project staff and others in coming forward with information and allegations about corruption in IFAD operations.

19. The investigation section will make anticorruption material more readily available at the project level, for example by distributing information through electronic channels. Involvement by civil society in monitoring and preventing corruption during project implementation will also be promoted. The section will continue to encourage the development and use of indicators to help measure the impact of fraud and corruption on IFAD's capacity to help alleviate poverty.

20. As a joint audit/investigation activity for 2010, OA also plans to develop and pilot a standard methodology for auditing country programmes. While this assignment will be led by the internal audit section, the investigation section will be closely involved in identifying "red-flag" indicators of suspicious activity in project procurement, supervision and audit reports. This activity will promote the application of IFAD's zero-tolerance anticorruption policy and can be expected to have a deterrent effect. OA will also combine audit and investigation skills to develop and incorporate red-flag indicators into other types of audits.

IV. Examples of investigations closed in 2009

A. External Cases

21. An anonymous allegation was received indicating that a government official was **extorting money** from staff of an IFAD-funded project and using project vehicles for personal use. **Outcome:** The allegation of using project vehicles for personal use was referred to PMD for appropriate managerial action. The matter of extortion was referred to government authorities for investigation and appropriate action.

22. During an OA Direct Supervision Audit, red flags were noted in the **bids for equipment** in a project. There were considerable difficulties in pursuing the investigation because of delays in responding to requests for documentation from the project. While there remained numerous unsatisfactory aspects to this procurement, there was no clear fraud indicator to justify the resources for further investigation. OA/IS recommended that the next supervision mission should conduct quality checks on the equipment and report back.

    Outcome: While the subsequent inspection by the supervision team was inadequate for OA/IS purposes, the disproportionate resources required for further review led to the case being closed as unsubstantiated.

23. A complaint was received of corruption with regard to a **contract for goods** in an IFAD-funded project. The investigation confirmed that the bid was corrupt, resulting in payments up to 30 per cent higher than market price for goods provided through the project. A similar bidding exercise the previous year was also shown to be corrupt. The total contract value for the two procurements was approximately US$690,000.

    Outcome: The case was closed as substantiated and referred to the Sanctions Committee, with a recommendation for debarment of suppliers and for referral to national authorities for criminal investigation in line with IFAD's policy. While the Sanctions Committee agreed that fraudulent practices had occurred, decisions by the Committee on remedial action remain pending.

B.   Internal cases

24.   An allegation was received in relation to the **recruitment** of a consultant for work on a project. Following the advice of IFAD's implementing agency, IFAD representatives manipulated the number of working days indicated in the contract to result in a lower apparent fee level, thus circumventing internal control mechanisms that would otherwise apply, which constituted fraud.

Outcome: Following consultation with Senior Management, the case was not sent to the Sanctions Committee but referred to Management for action. In addition, a reminder was issued that such practices are not in compliance with established procedures, to which adherence is required at all times.

25.   A second case of **manipulation of contractual details** to avoid additional approval from Senior Management was reviewed. In this case, the issue was dealt with prior to the contract being issued, and the required waiver was obtained. Staff appeared to be unaware of the impropriety of their actions, as this practice was thought to be common in IFAD.

Outcome: OA recommended that all IFAD personnel be reminded that altering contractual details to circumvent oversight mechanisms constitutes fraud, and that in future these cases would be pursued as misconduct. In this specific case, such action was avoided.

26.   During the processing of consultants' contracts, it was noted that two apparently independent consultants had provided **bank details** of a third consultant for their payments. Concerns were raised that this might be symptomatic of inappropriate payments or procedural impropriety.

Outcome: No specific breach of regulations could be identified and the case was closed as unfounded. However, the case highlighted gaps in procedures that allow payments to be directed to unrelated parties.

27.   An allegation was received by the Human Resources Division (FH) and forwarded to OA that during a **recruitment** exercise, a staff member on the interview panel had had personal interaction with one of the candidates, resulting in unfair competition.

Outcome: The case was closed as unsubstantiated; however, unrelated elements of the recruitment were not in accordance with regulations and principles applicable to the recruitment of staff. These weaknesses were referred to the Director, FH for action.

V.   Sanctions Committee activities

28.   The Sanctions Committee is composed of the Vice-President of IFAD (chairperson); the General Counsel; the Associate Vice-President, Programmes; and the Chief Finance and Administration Officer. OA/IS operates the secretariat for the committee. The Sanctions Committee has the authority to decide on appropriate sanctions, including debarment, to be imposed by IFAD where it determines that firms, private entities or individuals – including IFAD consultants but excluding staff members – have engaged in irregular practices in connection with IFAD-financed activities and operations. The Sanctions Committee acts as a recommending body to the President with respect to (i) corrective or disciplinary measures to be imposed on staff members; (ii) suspension or cancellation of a loan in cases involving fraud and corruption; and (iii) referrals to national authorities.

29.   The Sanctions Committee considered one case of procurement fraud in an IFAD-funded project during 2009, for which recommendations and decisions on remedial action remain pending.

30.   Remedial actions taken in 2009 with regard to cases closed prior to 2009 included the following:

- Expenditures totalling over US$500,000 were declared ineligible, and the borrower was requested to reimburse the respective amounts. This request came after careful consideration of a Government report that had found serious irregularities in the awarding of a contract.

- In three internal cases of misconduct, letters of reprimand were issued to staff members by the President.

- Information regarding modalities and channels for reporting irregular practices was circulated by FH to all staff.

- A project was closed prematurely due to poor performance and inadequate action taken by the Government in response to OA investigative findings and four qualified audit reports.