



IFAD

INTERNATIONAL FUND
FOR AGRICULTURAL
DEVELOPMENT

Enabling the rural poor
to overcome poverty

Oversight Committee

2006 Annual Report

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Executive summary

The Oversight Committee (OVC) was established in May 2000 with a mandate to coordinate investigations into alleged irregular practices, namely (i) fraud and corruption, when applied to entities, contractors and non-staff individuals applying for or participating in IFAD-financed activities, and (ii) staff misconduct. The efforts of the Fund to prevent the incidence of fraud and corruption in its activities and operations were further boosted through the adoption of an anticorruption policy by the Executive Board in November 2005.

Throughout 2006, IFAD worked towards introducing the structures and tools required for implementing its anticorruption policy. In 2006, the investigative capacity of the OVC was considerably reinforced with the establishment of the Investigation Section within the Office of Internal Audit. The OVC took specific actions to model its operating procedures and practices according to quality standards and best practices. It also took the lead in other activities related to implementation of the IFAD anticorruption policy, which included organizing an external review of the Fund's investigation and sanction processes. The review prompted a major institutional reform of IFAD's legal framework and procedures for conducting investigations and imposing sanctions, including the disbanding of the OVC, redefinition of the role of the Office of Internal Audit (renamed the Office of Audit and Oversight), establishment of a sanctions committee, and development of debarment procedures. These changes were introduced in early 2007, aligning IFAD with best practices applied by other United Nations agencies and the major multilateral development banks in this area.

In 2006 the OVC handled a higher number of cases than in previous years and also completed a substantially larger number of cases, several of which led to the imposition of sanctions, including disciplinary measures and debarment.

Internal cases (i.e. allegations against IFAD staff, consultants and contractors) constituted the majority of cases received by the OVC in 2006 (67 per cent), as opposed to external cases (i.e. allegations in connection with IFAD-financed projects and programmes, including allegations against a borrower's or project party's employees, and firms, private entities and individuals bidding, applying for or participating in an IFAD-financed project). Of 42 active cases in 2006¹, 27 were completed (15 internal, 10 external and 2 mixed). Of these 27 cases, three were closed because they did not fall within the scope of the OVC mandate. Sixteen other cases were concluded as either unfounded or unsubstantiated. Finally, investigations undertaken in respect of eight cases (five internal and three external) substantiated allegations of fraud, corruption and/or misconduct and were referred to the President for appropriate action.

Sanctions imposed on staff members in 2006 included one summary dismissal, one suspension without pay for a two-month period as a disciplinary measure, and one written warning. Disciplinary proceedings were ongoing in respect of another staff member. Furthermore, pending the implementation of debarment procedures in 2007, ad hoc debarment proceedings were initiated in 2006, for the first time ever at IFAD, against (i) a contractor and two firms that had colluded in order to improperly benefit from IFAD's business, (ii) a project party's employee responsible for the embezzlement of IFAD project funds, and (iii) an individual selected for a project director position on the basis of false educational credentials. The latter was declared ineligible to participate in any IFAD-financed activity for an indefinite period of time, while proceedings were ongoing in the other two cases at year end.

The incidence of serious allegations in IFAD operations remains low; nonetheless, the issues brought to the attention of the OVC in 2006 and the results of the investigations highlight the need for the Fund to remain vigilant against fraud and corruption risks in its activities. Full implementation of the anticorruption policy will allow the Fund to better assess its exposure to fraud and corruption, and to improve prevention and detection in its projects and programmes.

¹ Differences in the 2004/2005 statistics reported in this 2006 Annual Report compared to those reported in the 2005 Annual Report are as a result of an improved case registration, tracking and statistical reporting process.

I. Investigative mandate and process

1. In May 2000, IFAD created the Oversight Committee (OVC) to coordinate investigations into alleged irregular practices.
2. Established as an investigative committee, the OVC is made up of the Vice-President of IFAD (as chairperson), the General Counsel and the head of the Office of Internal Audit (OA). When the Vice-President position became vacant in September 2006, the President of IFAD decided that the OVC would continue to function until further notice with only the two remaining members, i.e. the Director of OA and the Acting General Counsel.
3. The OVC has been mandated to:
 - Investigate allegations of irregular practices pertaining to activities within IFAD or in connection with operations and contracts financed by IFAD loans and grants.
 - Decide on investigative actions to be taken, if any, and oversee the investigation, which will be assigned to OA, other organizational units or external bodies as deemed necessary by the Committee.
 - Report to the President in a prompt manner the facts that have emerged from the investigation for him/her to decide on further actions, including the imposition of sanctions.
4. Irregular practices that fall within the investigative mandate of the OVC encompass (i) fraud and corruption, when applied to entities, contractors and non-staff individuals applying for or participating in an IFAD-financed project or headquarters-related contract, and (ii) staff misconduct.
5. The OVC is not tasked with handling conflicts between staff or staff complaints of unfair treatment, including harassment, unless the case also includes irregular practices as outlined above. Specific procedures for dealing with allegations of harassment and other staff grievances are set forth in IFAD's Human Resources Procedures Manual.
6. In practice, the Office of Internal Audit provides secretariat support to the OVC and, in the majority of cases, conducts investigations on behalf of and under the authority of the OVC.
7. In 2006, the investigative capacity of the OVC was considerably reinforced with the establishment of the Investigation Section within the Office of Internal Audit. The section, which has been staffed with one investigation officer since January 2006 and one investigation assistant since June 2006, has been acting as the key OVC instrument in the conduct of investigations and anticorruption activities.
8. Through the Investigation Section, the OVC strived throughout 2006 to model its operating procedures and practices according to quality standards and best practices followed by other United Nations agencies and the major multilateral development banks. Detailed and comprehensive investigation guidelines were finalized and issued during the first quarter of 2006. The safety of investigation records was significantly improved through specific measures (e.g. purchase of security cupboards). In addition, an efficient and comprehensive investigation database was developed that allows for more rigorous case registration and status tracking and, overall, significantly improves the management of information related to cases, including statistical reporting.

II. Anticorruption policy

9. In December 2005, the Executive Board adopted the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (hereinafter the anticorruption policy). Throughout 2006, the OVC took the lead in a number of activities required for the effective implementation of the anticorruption policy, in particular those related to prevention and detection.
10. Following on the outreach activities initiated in 2005 to raise awareness internally, the OVC expanded efforts in 2006 to disseminate the policy externally, i.e. to IFAD-funded projects, in particular by issuing an anticorruption brochure in the Fund's four official languages.
11. The OVC's launching of a multilingual anticorruption website (<http://www.ifad.org/governance/anticorruption>) was another key measure in raising awareness and combating fraud and corruption, both within IFAD and in IFAD-funded projects. With the website, the public can now report or discuss matters of concern in strict confidence on-line; by phone, fax, e-mail or mail; or in person.
12. A wide-reaching communication campaign led by the OVC and the Office of Internal Audit was organized to disseminate relevant information on IFAD anticorruption policy and reporting mechanisms to all IFAD staff and to project, grant and cooperating institution staff working with IFAD. Information was disseminated at IFAD project start-up, regional and thematic workshops, loan negotiations, and via e-mail communications and the websites of IFAD regional networks. An announcement on the anticorruption website launch, for example, was sent to all IFAD staff and to over 1,000 project, grant and cooperating institution staff.
13. The OVC further took the lead in organizing a review of the IFAD investigative structure, covering the investigation and sanction processes and, in particular, the roles, responsibilities and authority of the OVC, the Office of Internal Audit and the Office of the General Counsel, as required by the anticorruption policy.
14. The review was conducted by two independent experts, the Chief of the Office of Institutional Integrity at the Inter-American Development Bank and the Head of Investigations at the Office of the United Nations High Commissioner for Refugees. These experts visited IFAD Headquarters in August 2006 to conduct the on-site part of the review (i.e. interviews), and issued their final report to the President in September 2006.
15. Following IFAD Senior Management's endorsement of the external review findings (subject to a number of reservations), the OVC developed and proposed, in December 2006, revised procedures for conducting investigations and imposing sanctions, in line with the main recommendations of the external review and best practices as applied by multilateral development banks and United Nations agencies. The revised procedures, which are consistent with the International Financial Institutions Principles and Guidelines for Investigations (September 2006), were adopted and promulgated by IFAD in early 2007.
16. The OVC's initiatives and determination in this respect will have led, in less than a year, to a major institutional reform of IFAD investigation and sanction processes, including the disbanding of the OVC, redefinition of the role of and reinforcement of the capacity of the Office of Internal Audit, establishment of a sanctions committee, development of debarment procedures, and the strengthening of IFAD disciplinary proceedings (see also section V, "What's next in 2007").

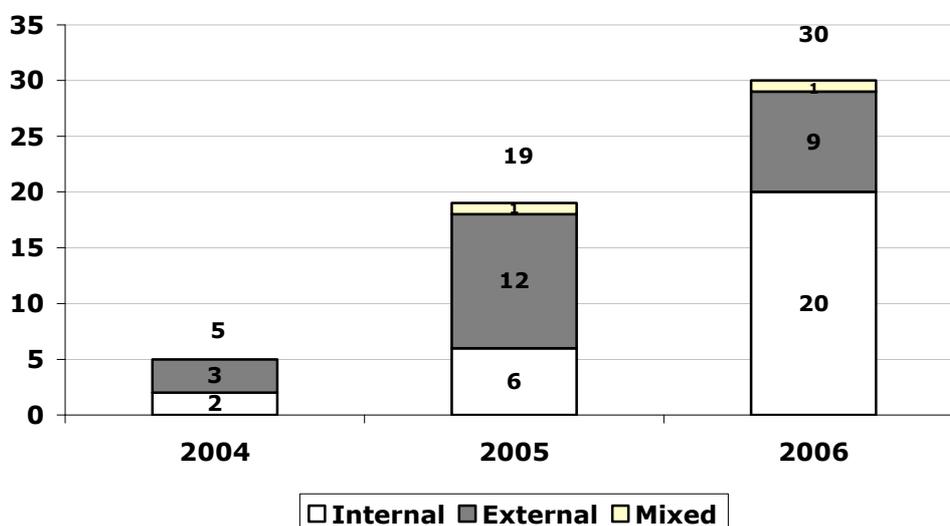
III. 2006 investigative caseload and statistics

17. In 2006, the OVC handled a higher number of cases (complaints and reports involving allegations of fraud, corruption or misconduct, made directly or referred to the OVC) than in previous years, and completed a substantially larger number of cases, several of which led to the imposition of sanctions. Pending the implementation of debarment procedures in 2007, the OVC recommended that ad hoc debarment proceedings be initiated, for the first time ever at IFAD, against two individuals and three firms.
18. Allegations of irregular practices pertaining to activities within IFAD, including allegations against IFAD staff, consultants and contractors, are usually referred to as **internal cases**, whereas allegations in connection with IFAD-financed projects and programmes, including allegations against a borrower's or project party's employees, and firms, private entities and individuals bidding, applying for or participating in an IFAD-financed project, are normally termed **external cases**.
19. Furthermore, completed cases are classified as **substantiated** when sufficient evidence has been found to conclude that irregular practices have occurred. Cases are considered **unsubstantiated** when the evidence obtained was insufficient to corroborate an allegation of irregular practices. **Unfounded** cases are those where evidence was found to refute the allegation(s).

A. Caseload

20. The number of cases received by the OVC has increased steadily over the past three years, as can be seen in figure 1. In 2006, the OVC received 30 cases, representing a 58 per cent increase over 2005.

Figure 1
Cases received by the OVC, 2004-2006¹



21. The 2006 caseload also included 12 active cases carried over from previous years (see table 1). All these cases were completed in the course of 2006. Of the 30 new cases received in 2006, 15 were completed and 15 were still pending at year end.

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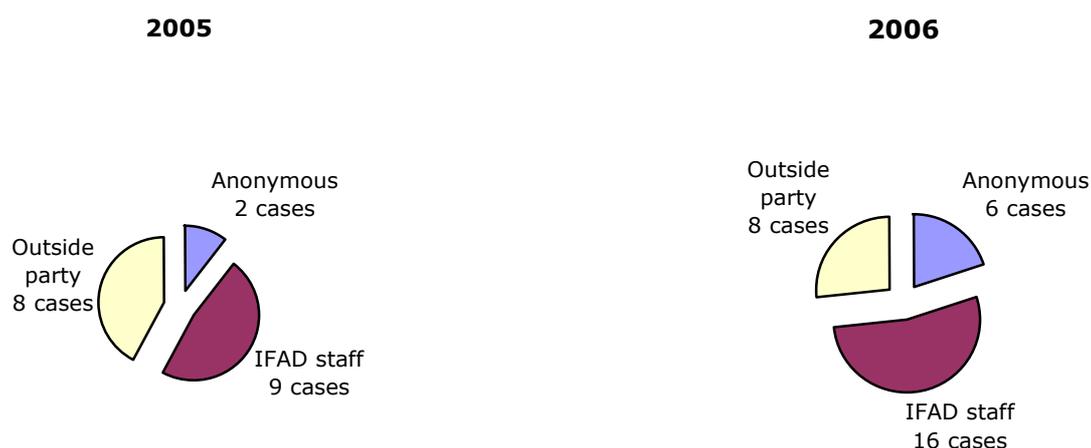
Table 1
2006 caseload and status at year end¹

	<i>Internal</i>	<i>External</i>	<i>Mixed</i>	<i>Total</i>
Cases pending from previous years (2004/2005)	4	7	1	12
Cases received in 2006	20	9	1	30
Total active cases in 2006	24	16	2	42
Cases completed in 2006	15	10	2	27
Cases pending at year end 2006	9	6	0	15

B. Sources of allegations

22. In 2006 the number of allegations reported by outside parties remained the same as in 2005, while the number of allegations reported by staff members almost doubled (see figure 2). This may be the result of growing staff awareness and trust in the reporting mechanisms available.

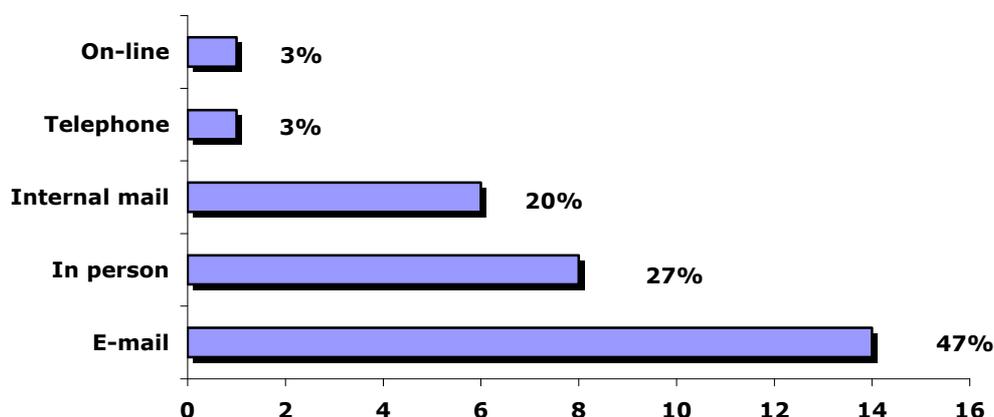
Figure 2
Sources of allegations, 2005 and 2006



23. The majority of allegations were received by e-mail, although complainants made use as well of all the other portals set up to facilitate reporting, as shown in figure 3.

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Figure 3
How cases were received in 2006



C. Nature of allegations

24. In 2006, there was a net increase in internal cases and a net decrease in external cases, as shown in figure 1. In 2006, 67 per cent of cases were internal, 30 per cent were external, and 3 per cent (i.e. one case) mixed, compared with 32 per cent internal, 63 per cent external and 5 per cent mixed in 2005.
25. Table 2 provides information on the nature of allegations received in 2006.

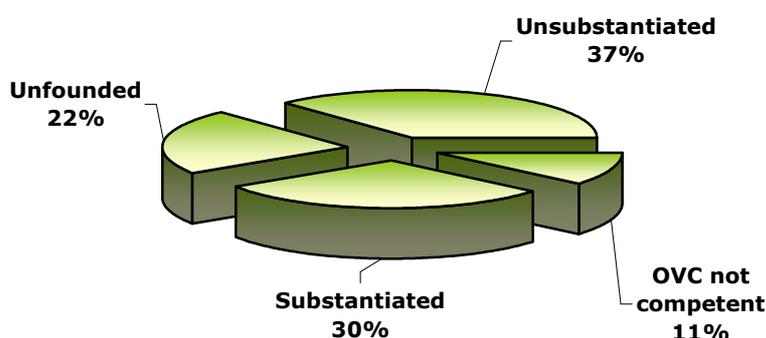
Table 2
Nature of allegations, 2006

	<i>Internal</i>	<i>External</i>	<i>Total</i>
Abuse of authority/mismanagement/favouritism	7	1	8
Bribery/corruption/embezzlement	1	5	6
False representation of educational credentials	3	2	5
Conflict of interest/unauthorized outside activities	3	-	3
Breach of confidentiality	3	-	3
Bid rigging/procurement fraud	-	2	2
Abuse of entitlements	2	-	2
Harassment	1	-	1

D. Cases completed in 2006

26. Twenty-seven of 42 active cases were closed in 2006. Three cases were closed following preliminary enquiries because the allegations did not fall within the scope of the OVC mandate. Six other cases were resolved and closed as unfounded. Ten cases were concluded as unsubstantiated. Finally, investigations undertaken in respect of eight cases substantiated allegations of fraud, corruption and/or misconduct (see figure 4).

Figure 4
Cases closed in 2006



27. All eight cases in which allegations were substantiated were referred to the President for appropriate action.
28. By the end of 2006, one staff member had been summarily dismissed; one had been suspended without pay for a two-month period as a disciplinary measure; and another had received a written warning. Disciplinary proceedings were ongoing in respect of another staff member.
29. Furthermore, pending the implementation of debarment procedures in 2007, ad hoc debarment proceedings were initiated in 2006, for the first time ever at IFAD, against (i) a contractor and two firms that had colluded in order to improperly benefit from IFAD's business, (ii) a project party's employee responsible for the embezzlement of IFAD project funds, and (iii) an individual selected for a project director position on the basis of false educational credentials. The latter was declared ineligible to participate in any IFAD-financed activity for an indefinite period of time, while proceedings were ongoing in the other two cases at year end (see table 3).

Table 3
Action taken on substantiated cases in 2006

Staff	Summary dismissal	1
	Other disciplinary measure	1
	Corrective measure	1
	Disciplinary proceedings ongoing	1
Non-staff	Debarment (indefinite)	1
	Debarment proceedings ongoing	4
	Other administrative action	3

Note: The total number of actions (12) exceeds the number of cases substantiated (8) because one case led to sanctions against several parties.

IV. Examples of investigations conducted in 2006

30. This section provides a summary of the major cases completed in 2006 that led or are likely to lead to the imposition of sanctions, and examples of cases where the OVC concluded that allegations made against IFAD staff or project parties were unfounded. The goal of an investigation is, indeed, to gather both inculpatory and exculpatory evidence, i.e. evidence that may either substantiate or refute an allegation. However important it may be to sanction those who have engaged in fraud and corruption, it is equally as important to have a process in place that can clear those wrongly accused. The OVC initiates a separate investigation when there are indications that malicious or deliberately false information was brought to its attention.

A. Internal cases

Case 2005/01

The OVC received a complaint alleging cronyism and conflict of interest against a staff member. The investigation established that (i) for several years, the staff member's family had maintained a business relationship (unrelated to IFAD) with consultants who had also been hired, during the same period, by IFAD through the functional involvement of the staff member concerned; (ii) the staff member had put forward a grant proposal in favour of an entity in which the same consultants had an interest; and (iii) the staff member's son had worked for and received remuneration from an IFAD-sponsored activity that was indirectly supervised by the staff member. These situations created a conflict of interest which the staff member had failed to disclose, in contravention of the rules applicable at the time.

Outcome: It was decided that the staff member, who had left IFAD in the meantime, would be informed that s/he should not seek further employment with IFAD in any capacity.

Case 2006/08

It was reported to the OVC that a staff member might have submitted false information about his education credentials. The investigation revealed that the staff member concerned held a university degree from a "diploma mill" and established that s/he had provided information on Personal History Forms that was, at times, inaccurate, misleading or false, resulting in the embellishment of the staff member's educational background.

Outcome: The matter was referred to the President for appropriate action.

Case 2006/10

The complainant claimed that a staff member A was engaged in outside activities giving rise to a potential conflict of interest. Preliminary enquiries confirmed that staff member A was a founding member and had responsibilities and shares in four private companies, including company C, all created after joining IFAD and operating in the same line of business as his/her official duties at IFAD. The preliminary enquiries further revealed that another staff member, B, was also a founding member and shareholder in company C. A full investigation was conducted and adduced evidence that staff member A, in addition to engaging in unauthorized outside activities and undisclosed conflicts of interest, had colluded with an IFAD contractor, D, to fraudulently steer a share of IFAD's business to his/her company C and to the company E of one of his/her business partners. With respect to staff member B, no evidence was adduced to show or suggest that s/he was involved in, or aware of, the scheme masterminded by staff member A.

Outcome: Staff member A was summarily dismissed. Staff member B was suspended without pay for two months as a disciplinary measure and was required to provide proof that s/he had excised himself/herself from company C and was no longer involved in any outside activities in any capacity with any firm. Debarment proceedings against IFAD contractor D and against companies C and E were ongoing at year end.

Case 2006/13

The OVC was informed of concerns that a staff member might have submitted a fraudulent request for home leave travel, on the basis of which s/he received from IFAD a significant sum of money. The investigation established that the staff member had misrepresented his/her travel plans and engaged in numerous violations of IFAD's rules and procedures in connection with his/her home leave. The evidence available did not, however, support a finding that the staff member's misrepresentation was fraudulent, in the sense that it was not intended to obtain a benefit that s/he would not otherwise have been entitled to claim.

Outcome: The staff member received a written warning.

Case 2006/14

The complainant claimed, based on information provided by a colleague, that the spouse of a senior IFAD staff member had been hired under a programme funded by an IFAD grant. The investigation revealed that the complainant had misinterpreted the information reported by his/her colleague, and established that the allegation of conflict of interest against the staff member was without foundation.

Outcome: The case was closed as unfounded.

Case 2006/19

The complainant (external party to IFAD) questioned the suitability of employment and recent promotion of a senior IFAD staff member and forwarded to the OVC two e-mails received from "a friend", alleging corruption against the senior staff member concerned. The investigation revealed that the allegations of corruption forwarded by the complainant were without foundation.

Outcome: The case was closed as unfounded.

Case 2006/20

The OVC received information that an IFAD consultant might have submitted false information regarding his/her educational credentials. The OVC verified, however, that the consultant had accurately represented his/her area of education on his/her resumé.

Outcome: The case was closed as unfounded.

B. External cases

Case 2006/01

The OVC received an anonymous e-mail alleging corruption in an IFAD-funded project. As the allegations were against project staff and a government official, the matter was referred to the national authorities for investigation. The enquiry conducted locally adduced no evidence in support of the allegations.

Outcome: The case was closed as unsubstantiated.

Case 2006/02

The OVC was informed that a project party's employee had been apprehended for the embezzlement of approximately US\$50,000, property of the project party, and that criminal proceedings had been initiated against the individual concerned. Further enquiries revealed that approximately US\$20,000 of the above-mentioned amount was IFAD project funds. The OVC sought and obtained assurances that IFAD funds had been reimbursed by the project party.

Outcome: Ad hoc debarment proceedings were ongoing at year end.

Case 2006/03

The complainant claimed, among other things, that the selection process for a post of project director had not been fair and transparent, and that the selected candidate did not meet the post requirements. The investigation revealed that the selected candidate had falsely claimed, in his/her application to the position of Project Director, to have studied at a Canadian university and to hold a master's degree in business administration (MBA) from that university. In the course of its enquiries, the OVC further found information suggesting that a staff member from another United Nations agency, who had been heavily involved in the above-mentioned selection process, might have manipulated the process in order to favour the selected candidate. This particular issue was referred to the United Nations agency concerned, which investigated it and concluded that it was unlikely that their staff member could have manipulated the selection process.

Outcome: The appointment process of the selected candidate was cancelled. Debarment proceedings were initiated and the individual was declared ineligible for an indefinite period of time.

Case 2006/06

An anonymous e-mail was sent to IFAD alleging irregularities in the recruitment of the chief and the accountant of a field office in an IFAD-financed project. The complainant claimed in particular that the selected candidate for the post of accountant had provided false information with respect to his/her educational credentials. The OVC verified the authenticity of the accountant's degrees with the educational institutions concerned. The other allegations were found to lack credibility.

Outcome: The case was closed as unfounded.

Case 2006/07

An anonymous complainant reported irregularities in the awarding of a contract financed under an IFAD loan. In conducting its enquiries, the OVC was informed that the company selected for the contract was owned and managed by two close relatives of a senior government official, whose office was also directly involved in the project's implementation and contract awards. In reviewing the evaluation documents, the OVC also noted indications that the selected company might have benefited from preferential treatment.

Outcome: IFAD submitted the matter to the national authorities for appropriate investigation and remedial action.

V. What's next in 2007

31. The year 2007 will see major changes and new challenges, with the implementation of a revised framework and revised procedures for conducting investigations and imposing sanctions relating to allegations of irregular practices in IFAD activities and operations.
32. The major features of the revised framework, which was designed by the OVC and subsequently led to the Committee's disbanding, are as follows:
 - The Office of Internal Audit – renamed the Office of Audit and Oversight – has been mandated to handle all matters related to investigations of irregular practices, thereby assuming the investigative responsibilities previously assigned to the OVC.
 - A sanctions committee was established to receive and review investigative findings and determine whether a sanction should be imposed or any other action should be taken in the light of such findings.
33. The Sanctions Committee has 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.
34. The members of the Sanctions Committee are the Vice-President of IFAD (as chairperson), the Assistant President of the Finance and Administration Department, the Assistant President of the Programme Management Department, and the General Counsel. The Assistant President of the External Affairs Department may act as an alternate if any of the other members is absent or has to recuse himself/herself.
35. The creation of the Sanctions Committee and the implementation of debarment procedures constitute a major milestone in the implementation of IFAD anticorruption policy.
36. Within the Office of Audit and Oversight, the Investigations Section will be strengthened, with the recruitment of an additional Professional staff member in order to help absorb the increasing workload.