

A

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

2005 ANNUAL REPORT

OF THE

OVERSIGHT COMMITTEE

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2005 Annual Report of the Oversight Committee

A. Introduction

1. The IFAD Oversight Committee (OVC) was established by the President of IFAD in May 2000 to coordinate investigations into alleged irregular practices as a means of ensuring consistent, prompt and appropriate responses to allegations. The OVC investigates allegations of irregular practices pertaining to activities within IFAD or in connection with operations and contracts financed by IFAD, decides on the investigative actions to be taken, determines the role of IFAD in investigations involving external parties (such as national authorities or cooperating institutions), and reports to the President the facts that have emerged from the investigation.

2. The OVC does not manage investigations into property or cash theft, other security-related violations or allegations of harassment. Such cases are handled by the Security Section of the Office of Administrative Services or the Office of Human Resources respectively and are not covered in this report. The OVC is kept informed and takes part in such investigations only if the subject matter falls within the scope of its mandate.

3. The OVC issued its first report to staff and to the Audit Committee in June 2005. The report covered cases handled by the OVC during the period 2000 to 2004. The present report covers allegations received and cases concluded by the OVC in 2005.

B. Allegations Referred to the OVC in 2005

4. During 2005, 16 complaints were referred to the OVC that could potentially fall within its mandate. Table 1 indicates how these complaints were handled by the OVC (comparative data relating to the period covered by the previous OVC report are also presented):

Table 1: Allegations Referred to the OVC Between August 2003 and December 2005

Allegations Referred to the OVC	Aug-Dec 2003	2004	2005
Complaints received by the OVC during the period	8	6	16
• Pertaining to IFAD staff and contractors	6	3	8
• Pertaining to IFAD projects	2	3	8
Assessed by the OVC through a preliminary review and closed	3	1	8
Investigation initiated by the OVC	4	3	3
Investigations handled by another entity with the OVC in a coordinating/monitoring/participating role	1	2	5
Cases brought forward from the previous period	-	5	1
Investigations concluded during the period	-	9	4
Cases pending at end of period	5	1	5

5. The number of complaints received by the OVC in 2005 (16) increased significantly over previous years, and a significant proportion of the OVC's time was devoted to the preliminary assessment of allegations made.¹

C. Allegations Pertaining to IFAD Staff and Contractors

6. Eight complaints received by the OVC in 2005 related to IFAD staff or contractors (including consultants). Six of these complaints were raised by IFAD staff members, some of them under whistleblower protection status. The other two complaints were brought to the attention of the OVC by external entities, one of which is a sister United Nations agency. Table 2 shows the status of the complaints.

Table 2: Summary Statistics on Allegations Pertaining to IFAD Staff and Contractors

Handling of Allegations	Aug-Dec 2003	2004	2005
Complaints received by the OVC during the period	6	3	8
<ul style="list-style-type: none"> • Complaints assessed by the OVC through a preliminary review and closed 	3	-	5
<ul style="list-style-type: none"> • Investigations initiated by the OVC 	3	2	3
<ul style="list-style-type: none"> • Investigations initiated by another IFAD division 	-	1	-
Cases brought forward from the previous period	-	3	-
Investigations concluded during the period	-	6	2
Cases pending at end of period	3	-	1

Nature of Allegations Received in 2005	Complaints Received	Investigations Launched
Abuse of position for private gain (staff)	3	1
Breach of confidentiality obligations (staff)	2	1
Manipulation of the procurement process (staff /contractors)	2	1
Improper actions by a supervisor (staff)	1	-

7. Based on the preliminary assessment of the allegations, which included cooperation with the investigative function of the other United Nations agency, the OVC was able to conclude that three of the allegations made against staff members were unfounded and the cases were closed. Furthermore,

¹ Issues/complaints received by the OVC are assessed as to whether they potentially fall within the scope of the OVC mandate. If the answer is affirmative, the OVC proceeds to screen the relevant evidence through a preliminary fact-finding exercise drawing on evidence provided or readily available. If the OVC concludes that the allegation is unfounded or cannot be substantiated, then the case is closed and no information is normally released. The term "unfounded" means that the evidence gathered was sufficient to disprove the allegation, while "not substantiated" means that the evidence was inconclusive as to the veracity of the allegation. The complaint is pursued further if the evidence gathered during the preliminary review lends credibility to the allegation and if the OVC has concluded that it is possible to investigate the allegation using reasonable investigative resources and means. Investigations into allegations pertaining to IFAD staff, consultants and contractors are handled directly by the OVC. Investigations into allegations pertaining to IFAD projects and grants are normally handled by external entities (e.g. national authorities, cooperating institutions, grant recipient institutions) in pursuance of their obligations vis-à-vis IFAD. In such cases, the OVC coordinates the IFAD actions in relation to the case but may participate in or lead the investigation if deemed necessary.

the OVC determined that staff members had raised complaints with the OVC in good faith, even though some turned out to be unfounded. The cases involving two other complaints were also closed following an assessment by the OVC which concluded that the initial action taken by the IFAD divisions functionally responsible for the subject matter had addressed the issues raised and that there was no need for an OVC investigation.

8. The serious nature of some of the complaints received (relating to alleged corruption by staff members) and the whistleblower status of the sources necessitated a cautious approach by the OVC, which in turn led to a significant time investment for the preliminary assessment of the allegations. The OVC believes that the caution and absolute confidentiality it exercised in handling such complaints safeguarded the reputation of subjects and protected complainants from reprisals.

9. The OVC initiated three investigations and cooperated with national authorities on a case related to 2004 involving a former staff member. The OVC closed two investigations involving staff members during 2005 and a further case was pending at the end of the year. It should be noted that the cases closed in 2005 did not involve fraud or corruption, and follow-up actions did not involve any disciplinary sanctions. The salient details of the two concluded cases are set out in the annex.

D. Allegations Pertaining to IFAD Projects

10. Eight allegations reached the OVC in 2005 in relation to IFAD loan and grant activities. Two of the allegations appeared in local newspaper articles; two were raised by the cooperating institution and relayed to the OVC by the IFAD responsible officers; and four were conveyed to IFAD by external parties through e-mail messages.

Table 3: Summary Information on Allegations Pertaining to IFAD Projects

Handling of Allegations	Aug-Dec 2003	2004	2005
Complaints received by the OVC during the period	2	3	8
<ul style="list-style-type: none"> • Complaints assessed by the OVC through a preliminary review and closed 	-	1	3
<ul style="list-style-type: none"> • Investigations initiated by the OVC 	1	1	-
<ul style="list-style-type: none"> • Investigations initiated by other United Nations agencies, multilateral development banks or grant/loan recipients with the OVC in a coordinating/monitoring/participating role 	1	1	5
Cases brought forward from the previous period	-	2	1
Investigations concluded during the period	-	3	2
Cases pending at end of the period	2	1	4
Nature of Allegations Received in 2005	Complaints Received	Investigations Launched	
Misappropriation of IFAD project funds or property	4	4	
Manipulation of the procurement process	1	1	
Corruption by government counterparts	1	-	
Manipulation of the recruitment process for key project positions	2	-	

11. IFAD loan-funded projects are executed by counterpart authorities, staffed mainly by government employees and generally supervised by cooperating institutions. Projects funded by grants are executed by the grant recipient organization (mainly government agencies, NGOs, United Nations organizations). The OVC does not normally have the authority, mandate or capacity to directly investigate allegations relating to the staff or contractors of such projects and often has to rely on the actions undertaken by other entities. More often than not, allegations are raised and dealt with locally and information thereon only reaches the OVC at a much later stage. The result is not always satisfactory and a current priority of the OVC is to develop further the IFAD mechanism for dealing effectively with such allegations.

12. The most serious allegation received (through a local newspaper article) was one of corruption by senior government officials involving a contract awarded by IFAD to a local firm based on the recommendation of the officials concerned. The evidence gathered through the preliminary assessment did not reveal any violations of IFAD rules nor lend credibility to the allegations and the case was not pursued further by the OVC. The local authorities proceeded with the indictment of one of the government officials concerned on a corruption charge (not directly related to the IFAD contract), but that indictment was quashed by the national court of appeal. The two other cases closed after a preliminary assessment of the alleged manipulation of the recruitment process for project posts. The complaints were communicated to IFAD by e-mail. After assessing the nature of the alleged violations based on documentation available, the OVC concluded that the issue was of a management nature that was better handled by the responsible operational officers.

13. Four complaints received by the OVC in 2005 related to the alleged misappropriation of project funds or property by project staff or contractors. The OVC was notified of the allegations through local newspaper articles (one case), by the responsible IFAD operational officers who had been informed by the cooperating institution (two cases) and through an external party (one case). The issues came to the attention of the OVC after the local authorities or the cooperating institution had launched investigations into the allegations. Two such investigations had been concluded before the end of 2005 and the salient details are set out in the annex.

14. Finally, one complaint (received from an external party) related to the alleged manipulation of IFAD project procurement activities in collusion with staff from an IFAD cooperating institution. The case is being jointly investigated by IFAD and the other institution concerned.

E. OVC and the Prevention of Fraud and Corruption in IFAD Activities

15. The IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations was approved by the Executive Board in December 2005. The OVC members and supporting functions had a lead role in developing the policy paper and in presenting the paper to the IFAD governing bodies for approval. Effective implementation of the policy was started by the OVC and the Offices of Internal Audit and of the General Counsel long before its formal approval. Specific actions undertaken in 2005 to this end include:

- **Internal awareness.** The OVC published its first annual report to IFAD staff, and OVC members were actively involved in presenting and discussing this report with all IFAD staff through a series of divisional meetings. The meetings took the form of a half-hour presentation of the report by the OVC and a one-hour session of questions and answers. Candid views were expressed by staff, and constructive suggestions were made on improving and strengthening the OVC mechanism and related processes. At the same time, the OVC members clarified to staff the role of the OVC, its mode of operation, the rights and obligations of staff and other parties involved in investigations, and the OVC's obligations vis-à-vis whistleblowers. The first OVC report was also presented to and

discussed by the Audit Committee and tabled at the September 2005 session of the Executive Board.

- **Cooperation with external partners.** OVC members carried out visits to several IFAD cooperating institutions during which the policy was presented, means for working together on fighting corruption in projects were examined, and contacts were established with the officials responsible for investigative activities. OVC members also participated in the annual International Investigators Conference, which brings together representatives from all United Nations agencies, multilateral development banks and other supranational investigation bodies.
- **Organization.** During 2005, the Office of Internal Audit was restructured to better fulfil its evolving mandate and role in internal oversight, and a two-member Investigation Section was established and staffed in 2006.

16. The OVC members are directly responsible for implementation of the comprehensive action plan linked to the Executive Board approval of the IFAD anti-corruption policy, and this has constituted a main activity of the Offices of Internal Audit and of the General Counsel in 2006. A report on implementation of the policy will be presented to the Executive Board in April 2007.

Annex: Salient Details of Concluded Cases

Allegations Pertaining to IFAD Staff, Consultants and Contractors

Case 2005/04. Unauthorized disclosure of confidential information pertaining to a security issue

The allegation was that the content of a sensitive communication on a potential security concern had been leaked by a staff member who had access to it (due to functional responsibilities) to other staff members who were not authorized to know about it. The OVC investigation confirmed the allegation and further concluded that the staff member concerned had presented misleading explanations in relation to this issue to the OVC and other parties.

Follow-up action/sanction applied: The staff member concerned was issued a formal warning.

Case 2005/19. Alleged manipulation of the Headquarters procurement process

The allegation was that the procurement process in relation to a high-value contract had been manipulated by staff members to favour a specific firm. The OVC determined that the manner in which events evolved did indeed result in placing the concerned firm in an advantageous position, thereby undermining the integrity of the selection process and potentially the economy of the transaction for IFAD. The OVC did not, however, identify any deliberate manipulation of the process by staff members or external parties.

Follow-up action/sanction applied: The contract with the firm was cancelled and the procurement process was repeated. As the OVC had not found evidence of any violation committed by the firm concerned, the firm was permitted to participate in the new tender.

Allegations Pertaining to IFAD Projects (Loan and Grant Activities)

Case 2005/02. Alleged corrupt practices in an IFAD-funded project

An IFAD-financed project was the subject of newspaper allegations of corruption. An investigation was launched by the national authorities; IFAD and its cooperating institution, which is also a major cofinancier of the project, learned of the arrest of the Project Implementation Unit (PIU) staff through the media and promptly suspended disbursements to the project. The OVC together with the IFAD operational division concerned monitored the developments through feedback from the local office of the cooperating institution. The local investigation led to the replacement of almost all project management and staff. A subsequent independent audit confirmed that the alleged irregularities did not relate to project activities financed by IFAD or by the cofinancier/cooperating institution and that the new project management had addressed the internal control weaknesses identified in previous audits. Having assessed the actions of and cooperation received by the national authorities as satisfactory, IFAD and the cooperating institution agreed to lift the suspension of disbursements.

Follow-up action/sanction applied: No further sanctions were applied. The OVC is monitoring the progress of the ongoing investigation.

Case 2005/12. Alleged corrupt practices in an IFAD-funded project

An anonymous letter was received by IFAD reporting the arrests of bank employees who worked in a microfinance institution funded with an IFAD loan. The OVC together with the IFAD operational division concerned monitored the results of the investigation of the national authorities. The OVC confirmed that no financial loss was suffered by IFAD and that the irregularities noted did not involve any IFAD project staff or contractors.

Follow-up action/sanction applied: The individuals concerned were eventually imprisoned and the misappropriated funds were reimbursed to the microfinance institution.