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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-Sixth Session

Rome, 12-13 December 2005

**IFAD POLICY ON PREVENTING FRAUD AND CORRUPTION
IN ITS ACTIVITIES AND OPERATIONS**

1. The IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (document EB 2005/85/R.5) was considered at the Eighty-Fifth Session of the Executive Board in September 2005. Further elaboration and clarifications were sought at that session on some aspects of the document, in particular with respect to the proposed structure and implementation of actions to combat fraud and corruption. In this context, it was agreed that the policy would be amended and circulated to all Executive Board Directors for approval on a no-objection basis.
2. Attached is the revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (document EB 2005/85/R.5/Rev.1), which was circulated to all Executive Board Directors in accordance with the decision cited above and to which no objections were raised. The attached document, therefore, may be considered approved by the Executive Board and will be disclosed on IFAD's public website.

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INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Eighty-Fifth Session
Rome, 6-8 September 2005

IFAD POLICY ON PREVENTING FRAUD AND CORRUPTION
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I. INTRODUCTION

1. The adverse effect of corruption on the effectiveness of development aid is widely recognized, and many efforts are in progress aimed at preventing, detecting and punishing corruption associated with development assistance. In his statement to the General Assembly on the adoption of the Convention against Corruption in December 2003, the Secretary-General of the United Nations noted that: “Corruption hurts the poor disproportionately – by diverting funds intended for development, undermining a government’s ability to provide basic services, feeding inequality and injustice, and discouraging foreign investment and aid.” IFAD has a mandate to enable the rural poor to overcome poverty, and the prevention of corruption in its operations is inherent in this role. IFAD is committed to promoting and adhering to the highest standards of probity and accountability in the use of its funding and takes a zero-tolerance stance towards cases of fraud and corruption in its activities and operations, both within the institution and under its projects and programmes. In recent years, IFAD has taken concrete steps towards reinforcing its efforts in this regard and, in keeping with evolving best practice among international financial institutions, further steps are planned as outlined in this paper. The efforts of the Fund in this area are complemented by the initiatives it is presently undertaking to improve its operational effectiveness and strengthen its governance, internal control and risk management practices. The main such initiatives are identified in section V on the IFAD framework for preventing and combating fraud and corruption.

2. The objectives of this document are to: (i) affirm and communicate the Fund’s resolve to prevent and combat fraud and corruption in its activities and operations; (ii) describe the ongoing efforts of the Fund in this area; and (iii) outline actions that the Fund will be taking in implementing this policy.

II. DEFINITIONS AND SCOPE

3. The definitions adopted for the purposes of this document are in line with those commonly applied by international financial institutions.

“Corrupt practice” means the offering, giving, receiving or soliciting, directly or indirectly, of anything of value¹ to improperly influence the actions of another party;

“Fraudulent practice” means any action intended to deceive another party in order to improperly obtain a financial or other benefit or avoid an obligation;

“Collusive practice” means an arrangement between two or more entities without the knowledge of a third party, designed to improperly influence the actions of the third party;

“Coercive practice” means impairing or harming, or threatening to impair or harm, directly or indirectly, any party or its property, or persons closely related to a party, to improperly influence the actions of that party.

“Debarment” means the declaration that a firm or individual is ineligible to bid, participate as a subcontractor, or receive a contract either indefinitely or for a specified period of time.

“Reprisal” means an act taken against an IFAD employee or other entity for their revealing non-compliance with IFAD regulations and rules by a firm, individual or other entity.

“Whistle-blower” means an IFAD employee or any third party who reveals corruption in an IFAD-funded activity by contacting either anonymously or openly the Fund.

“Whistle-blower protection” means measures taken to ensure that anyone who reveals fraud and corruption in IFAD operations is protected from reprisals.

4. For the purposes of this document, the term “IFAD activities and operations” refers to all activities financed and/or managed by the Fund at its headquarters and through its loans and grants; consequently, it covers the actions of IFAD staff and all individuals or entities implementing such activities or representing the Fund in any capacity. The scope of this document is limited to a statement of the policy and practices of the Fund on preventing and combating corrupt, fraudulent, collusive or coercive practices in its activities and operations. Such practices may include bribery used to influence the award of contracts, theft and misuse of public assets, falsification of accounts to cover diversion of public funds to personal accounts, abuse of official discretion or disclosure of privileged information to help friends and relatives.

5. The scope of this document does not cover ethical conduct or procedural lapses of staff and consultants that do not fall within the scope of corrupt, fraudulent, collusive or coercive practices as defined above (e.g. harassment, mismanagement, disrespectful behaviour and breaches of legal and contractual obligations not involving fraud, corruption, coercion or collusion). The Fund has policies and practices in place to deal with such lapses, which include provisions for their investigation and for the application of appropriate sanctions or remedies.

III. IFAD POLICY

6. Fraud and corruption can undermine the effectiveness of the Fund’s operations in a variety of ways, as detailed in the three subsections below. The first annual report of the IFAD Oversight Committee² noted that IFAD is exposed to fraud and corruption in the same manner as other

¹ More detailed guidance as to what constitutes the concept of “anything of value”, e.g. gifts, is provided in the IFAD Headquarters Procurement Guidelines and in the IFAD Code of Conduct (issued in July 2005).

² The first annual report of the Oversight Committee (OVC) was issued in June 2005 in compliance with the requirement introduced in 2003 whereby the OVC is to report annually to IFAD staff on the salient elements of cases handled. The report provides information on the main cases handled since the OVC was established

international financial institutions are. While IFAD has always taken a clear stand in cases of fraud and corruption, its practices in this area have been largely shaped by the incidence and handling of specific incidents and do not ensure a consistent approach with respect to the prevention and handling of irregular practices throughout its activities and operations. Reports issued in 2003 and 2004 by the IFAD Offices of Evaluation and Internal Audit highlighted the need for a clear policy and a more proactive and consistent stand by the Fund in this area, especially in relation to its responsibilities of directly supervising part of the loan portfolio on a pilot basis. The formal adoption and implementation of a zero-tolerance policy by IFAD towards corrupt, fraudulent, collusive or coercive practices in its activities and operations will help bring a structured and systematic approach to the prevention, detection, investigation and punishment of such practices. The endorsement of a zero-tolerance policy by the IFAD membership will provide the Fund with the necessary authority and support to mainstream this position in its operations by revising its loan and grant instruments and its agreements with partners (including cooperating institutions) and introducing appropriate tools and mechanisms.

Loan and Grant Activities

7. ***IFAD policy:* The Fund shall apply a zero-tolerance policy where it has determined, through an investigation performed by the Fund, the borrower or another competent entity, that fraudulent, corrupt, collusive or coercive actions have occurred in projects financed through its loans and grants, and it shall enforce a range of sanctions in accordance with the provisions of applicable IFAD rules and regulations and legal instruments. “Zero tolerance” means that IFAD will pursue all allegations falling under the scope of this policy and that appropriate sanctions will be applied where the allegations are substantiated. This policy applies to IFAD-funded activities whether supervised directly by the Fund or by a cooperating institution. The Fund will continue to improve its internal controls, including controls inherent in or pertaining to its project activities, so as to ensure that it is effective in preventing, detecting and investigating fraudulent, corrupt, collusive and coercive practices. The Fund shall³ take all possible actions to protect from reprisals individuals who help reveal corrupt practices in its project or grant activities and individuals or entities subject to unfair or malicious allegations. This policy is in line with the policies adopted by the other international financial institutions.**

8. The Agreement Establishing IFAD requires that the Fund make arrangements to ensure that the proceeds of any loan or grant it makes are used only for the purpose for which such financing was provided. Over and above its fiduciary responsibility, IFAD has the strategic objective of enabling its target group to overcome poverty and consequently has a fundamental interest in ensuring that the development objectives of its financing interventions are met. Fraudulent, corrupt, collusive and coercive practices can have a significant distorting effect on the cost, quality and actual use of IFAD-funded goods and services in ways not permissible under the applicable legal instruments. Such practices prevent the achievement of project objectives and consequently undermine the Fund's

in 2000. Most of the cases related to staff members or consultants; about half the allegations or complaints were confirmed and sanctions were applied in cases of proven misconduct, including referral to national authorities where appropriate. Project-related allegations were investigated in conjunction with government authorities, cooperating institutions and IFAD operational divisions. In several cases the investigation revealed control weaknesses and steps were taken to address them. The OVC also reported on the lessons learned from experience to date. The main lessons related to control weaknesses over consultancy arrangements, the lack of clarity over ethical rules, the inefficient channels for communicating allegations, the lack of a debarment process and the capacity constraints of the IFAD investigative mechanism. Actions have already been taken, are in progress or are planned to address these concerns, some of which are outlined in the present policy paper.

³ “Shall” is used here in a normative context and is not intended to imply that the Fund is not currently applying the stated practices.

capacity to enable the rural poor to improve their living conditions. The achievement of the Fund's fiduciary and strategic objectives in this area relies significantly on its ability to reduce the incidence of fraud and corruption in its operations. This means that such cases must be detected, communicated effectively to the Fund and handled in a timely and decisive manner, which in turn requires effective controls, including those inherent in or pertaining to its project activities, robust investigative practices, good coordination among all parties involved, and a fair and transparent sanctions process. The effective communication of such cases to the Fund depends crucially on the latter's ability to afford protection from reprisal to individuals who reveal corrupt practices in IFAD operations and to individuals subject to unfair or malicious allegations. The Fund's position in this regard is explicitly set forth in the policy statement above.

9. Cooperating institutions play a crucial role in enabling IFAD to deal effectively with cases of fraud and corruption in projects that they supervise. The respective cooperation agreements govern the various responsibilities and obligations, and provide a general framework through which corruption allegations can be managed. The response to allegations and anti-corruption structures of cooperating institutions vary depending on the nature and size of the institution. The processes for handling allegations through cooperating institutions, however, need to be properly structured. IFAD retains overall fiduciary responsibility for the proper use of its financing, and its objective is to ensure a consistent approach irrespective of the administration and supervision arrangements in place.

At the Country Level

10. ***IFAD policy: In allocating its resources and preparing and implementing its country programming, lending, technical assistance and policy dialogue activities, the Fund, within the bounds of its mandate, shall explicitly consider and support measures aimed at the prevention of corruption as it affects the rural poor.***

11. Multilateral development banks generally have mandates and funding windows that either require or allow them to support national institution-building, and consequently their anti-corruption strategies place significant emphasis on reinforcing national infrastructure for preventing and fighting corruption (e.g. through direct support to competent judiciary, regulatory and audit bodies). By virtue of its mandate, IFAD focuses its resources on rural poverty reduction; its scope for providing direct support to national or regional anti-corruption capacity-building efforts is therefore more limited. As indicated in the introduction, however, corruption affects the rural poor disproportionately, and the prevention of corruption as it affects the Fund's target group is inherent in the organization's strategic objectives and should be an important consideration in developing its projects and programmes.

IFAD Staff and Individuals Representing the Fund

12. ***IFAD policy: The Fund shall apply a zero-tolerance policy where it has determined through an investigative process that its staff, consultants or individuals acting as representatives of the Fund have engaged in fraudulent, corrupt, collusive or coercive practices. "Zero tolerance" means that IFAD will pursue all allegations falling under the scope of this policy and that appropriate sanctions will be applied where the allegations are substantiated. IFAD shall enforce a range of disciplinary measures and sanctions for all such cases, in accordance with applicable IFAD rules and regulations and contractual provisions. Such measures will include referral to the competent national authorities where warranted. Where such cases concern individuals employed by another entity, the Fund shall take all possible steps to ensure that the other entity takes appropriate actions in a manner consistent with this policy. The Fund will continue to improve its internal controls so as to ensure that it is effective in preventing, detecting and investigating fraudulent, corrupt, collusive and coercive practices pertaining to its staff, consultants or its representatives. It shall take all possible actions***

to protect from reprisals individuals who submit allegations of corrupt practices in its activities and operations and individuals subject to unfair or malicious allegations.

13. The responsibility of the Fund to ensure that its resources are used for the intended purposes is clearly extended to resources administered or controlled by IFAD staff or by other individuals or entities representing the Fund. It is therefore of paramount importance that IFAD staff, consultants and officers of cooperating institutions who often act as representatives of the Fund are beyond reproach, and that the Fund's regulations and procedures support the highest standards of ethical and financial probity.

IV. EFFORTS OF INTERNATIONAL FINANCIAL INSTITUTIONS AND UNITED NATIONS ORGANIZATIONS TO COMBAT FRAUD AND CORRUPTION

14. The need to systematically and vigorously combat corruption internally and in operations is clearly recognized by the multilateral development banks. Most of these institutions, some of which are also cooperating institutions for IFAD projects, have in recent years established comprehensive procedures and mechanisms for preventing and combating corruption, including high-level focal points entrusted with investigating allegations, specialized investigation units, channels and procedures for reporting allegations, and procedures for determining sanctions for staff and external contractors found to have engaged in corrupt or fraudulent activities. Most multilateral development banks have published statements outlining their anti-corruption positions, which – as a reflection of their mandates – also cover the related national capacity-building needs of borrowers.

15. United Nations organizations are also giving increased attention to this area, with the United Nations Office on Drugs and Crime (UNODC) taking a lead role. Prominent among the many recent initiatives was the adoption of the United Nations Convention Against Corruption by the General Assembly on 31 October 2003 (so far signed by 123 States). Progress towards ratification of the Convention is monitored/supported by the International Group for Anti-Corruption Coordination, a group of representatives from organizations active internationally in anti-corruption policy, advocacy and enforcement that was set up to strengthen international anti-corruption coordination and collaboration. IFAD joined the group in 2005. With regard to internal capacity-strengthening, several organizations have recently established separate investigation functions, including the other two Rome-based agencies, and investigation practices have been generally enhanced through the adoption of common investigation guidelines by international financial institutions and the United Nations and increased cooperation among agencies through annual meetings of representatives of the investigation functions.

V. IFAD FRAMEWORK FOR PREVENTING AND COMBATING FRAUD AND CORRUPTION

Prevention and Detection

16. The framework of internal controls is the organization's main shield against fraud and corruption in its operations. In this regard, the Fund's control processes for the prevention and detection of irregular practices have developed over time in line with its changing operational modalities and exigencies. The increasing involvement of the Fund in supporting the implementation of its projects, its expanding field presence, the growing importance of its grant programme, and its internal re-engineering activities in the human resources and financial areas are all developments that have prompted the strengthening of such control processes in recent years. In particular:

17. **IFAD activities at the regional and country levels.** The Fund's field-level activities and the extent to which they address issues of corruption and fraud are driven by operational funding mechanisms under the organization's loans and grants. Preventing corruption in the use of IFAD loan and grant funding begins with the Performance-Based Allocation System (PBAS) as part of the

development of the potential loan and grant programme. The assessment of the Rural Development Sector Framework (part of the PBAS methodology) includes assessment of two specific criteria for corruption in rural areas. These are the “obligation by the rural poor to pay bribes in order to access services or seek fair application of laws” and “the application of sanctions against government officials who demand or accept bribes”. Low assessments in these areas may potentially affect the amount of IFAD financing to the country. The PBAS performance ratings are publicly disclosed (IFAD is the first international financial institution to do so). The Fund’s stepped-up efforts for social mobilization and the empowerment of beneficiaries (through, inter alia, their role in social audits) are increasingly bringing beneficiaries and civil society into resource allocation and project and programme implementation activities at the field level. Once the project cycle is under way, the appraisal mission, in which IFAD staff and consultants participate, includes a review of the financial management systems in place and seeks the views of bilateral donors and international financial institutions. This is particularly the case in cofinanced operations and it has been given added emphasis by the evolving harmonization initiatives of multilateral development banks and the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD/DAC). Loan arrangements are concluded with borrowers on the basis of legal agreements, of which the Fund’s General Conditions for Agricultural Development Financing and its audit and procurement guidelines form integral parts. The General Conditions and the procurement guidelines were revised by the Executive Board in 1998 and 2004 respectively to include specific provisions on corrupt or fraudulent practices, including the possibility for IFAD-initiated project audits, while guidelines on project audits (for borrowers’ use) and operational procedures for project audits (for use by IFAD and cooperating institutions) were formally introduced in 2003.

18. IFAD often provides support to borrowers to ensure that the accountability arrangements put in place are appropriate, e.g. in countries where financial management may need strengthening, IFAD will fund the international recruitment of financial controllers at the project level to take responsibility for procurement and accounts. IFAD loan proceeds may also be used to pay for audit reports and may, when necessary, be used to support capacity-building in national audit offices. Such support also contributes to the general anti-corruption efforts of borrowers.

19. The IFAD Policy for Grant Financing was approved by the Executive Board in 2003, and the procedures currently applied in this area require the Fund to use a rigorous selection and screening process for proposed grant recipients to ensure that the Fund’s fiduciary requirements are met.

20. Except for the 13 projects currently ongoing under the Direct Supervision Pilot Programme, which are supervised directly by the Fund, IFAD entrusts the administration and supervision of its lending activities to cooperating institutions, which include both international financial institutions and the United Nations Office for Project Services (UNOPS). The cooperating institutions are the direct interface between procurement and project implementation. IFAD projects normally do not include major procurement of civil works and equipment, and all contracts follow established bidding and review procedures based on thresholds set out in the loan agreement. Where these have not been applied, the cooperating institution can initiate remedial actions. It may also contact the Fund on issues as they arise and seek guidance as required before transmitting any request for payment to IFAD for final authorization. Financial transactions at the project level – which should observe the agreed thresholds set by project type and the country’s financial management procedures – are to be based on statements of expenditure. These are reviewed by cooperating institutions during annual supervision missions and by the annual audit. The appointment of a cooperating institution provides IFAD with an independent layer of controls over the financial administration of its projects (and, in this respect, it is different from multilateral development banks). However, coordination of the handling of allegations of fraud and corruption is a greater challenge when several entities are involved in the project implementation phase.

21. The checks performed and oversight exercised by the IFAD loans and grants administration function within the Controller’s Office constitute a secondary layer of control over the propriety of

transactions funded by IFAD loans and grants. Project financial and audit reports are scrutinized and followed up on by loan officers who also monitor the use of project funding through the scrutiny and approval of disbursements. The capacity and role of this unit have been significantly upgraded by increasing the staffing and by assigning full-time duties for the monitoring/follow-up of project audits and for the administration and supervision of grants. As indicated above, the IFAD policy instruments that govern the financial and administrative management of loans and IFAD's Loan and Grant Administration – Operational Manual have all been revised in recent years to introduce a more structured process for audits and clearer provisions against fraud and corruption. Grant supervision and audit practices have been further reinforced through periodic project review missions by the Office of Internal Audit.

22. IFAD staff and individuals representing the Fund. IFAD rules and regulations, legal instruments and control processes (including internal audit⁴ and external audit⁵) define and enforce the parameters of proper conduct for staff and consultants, and constitute prevention and detection controls against the incidence of fraud and corruption. The present prevention and detection framework has been largely shaped by a series of recent initiatives by the Fund in this regard. The ongoing initiative of modernizing the human resources policies and procedures is already shaping a more ethical and accountable corporate culture through the introduction of competency-based recruitment practices, revamped performance evaluation, training, career development and promotion structures, and an IFAD-specific code of conduct clearly defining acceptable bounds of ethical behaviour of IFAD staff and consultants. These are all elements of the revised Human Resources Procedures Manual issued in July 2005. The launch of the Oversight Committee's annual report to staff and to the Audit Committee in 2005 has further bolstered the emphasis on ethics and proper conduct. Implementation of the PeopleSoft integrated financial system through the Strategic Change Programme has created improved capabilities for management information, more transparent and readily accessible information on transactions, and streamlined and more effective controls over financial and procurement actions. Financial accountability has been further strengthened through the establishment of a strategic planning and budgetary function and the introduction of activity-based budgeting and the implementation of an asset liability management framework. In the procurement area, the Headquarters Procurement Manual was recently revised to include provisions for avoiding conflicts of interest and for the removal of suppliers from the IFAD eligibility list if they are found to have intentionally submitted false, materially inaccurate or incomplete information or to have offered incentives, inducements or other benefits to IFAD staff and consultants. Moreover, a Property Survey Board was set up and tasked with recommending sanctions for property misuse and losses.

23. The specific control processes described above are supported and supplemented by the audit, risk management and control assessment activities of the Fund, including the assessments of risks and controls performed annually by the internal and external audit functions in planning and implementing

⁴ IFAD's Office of Internal Audit conducts its work in accordance with the International Standards for the Professional Practice of Internal Auditing and assesses whether: risks are appropriately identified and managed; financial, managerial and operating information is accurate, reliable and timely; policies, standards, procedures and applicable laws and regulations are complied with; resources are acquired economically, used efficiently and adequately protected; programmes, plans and objectives are achieved (excluding evaluation tasks falling within the scope of the work of the IFAD Office of Evaluation). The functional independence of the Office of Internal Audit is laid down in its charter and ensured by its organizational status. The Chief, Office of Internal Audit reports directly to the President and also reports to the Audit Committee of the Executive Board for purposes of ascertaining that the internal audit function is effective and efficient and that audit reports are promptly acted upon by management. To this end, the Chief, Office of Internal Audit provides reports to the Audit Committee on the unit's activities vis-à-vis its approved workplan, main audit findings, the detailed audit workplan for the following year, the status and adequacy of the unit's resources and the implementation of internal audit recommendations. The Audit Committee's assessment of the effectiveness of the internal audit function is reported to the Executive Board.

⁵ IFAD's external auditor conducts its work in accordance with International Standards on Auditing. Its observations on control weaknesses with regard to finance are reported in an annual internal control memorandum to IFAD management and to the Audit Committee.

their workplans. Prominent among the Fund's risk management efforts was the performance of a risk management survey in 1995 covering the areas of personnel, treasury, project management, administrative services and information security by external experts and the establishment of an Operational Risk Management Committee tasked with overseeing implementation of the risk mitigation actions identified. The committee remained in place until 1998, at which point most of the mitigation actions had been implemented or superseded by other corporate improvement initiatives. Initial assessments of the IFAD internal control framework based on the "Internal Control – Integrated Framework" model (commonly referred to as the COSO model)⁶ were conducted by the Office of Internal Audit in 2002 and by a group of external experts in 2004. The results were reported to the Audit Committee and steps were taken by the Fund to address the main weaknesses identified. The institutional risk management process was resumed in 2004 with the performance of an assessment of organizational risks with regard to financial soundness and organizational efficiency, and a business impact assessment was performed to prioritize the organizational procedures and systems for continuity and disaster recovery planning. In addition to identifying and ranking critical risks, this assessment was useful in identifying an appropriate control methodology to be used by IFAD and a structure for documenting the existing control framework. Risk management was integrated into the strategic planning and budget process in 2005. The Office of Internal Audit will proceed with further documentation of IFAD's internal control framework in 2005, in coordination with the Finance and Administration Department. For the time being, this effort will consist of formally documenting the controls in place over external financial reporting with reference to the COSO model, evaluating such controls and identifying relevant issues.

Investigation

24. In 2000, the President of IFAD established the Oversight Committee (OVC) to coordinate investigations into alleged irregular practices, both within IFAD and in relation to IFAD projects. The OVC oversees the IFAD investigative process and is mandated to investigate allegations of irregular practices pertaining to activities within IFAD or in connection with operations and contracts financed by IFAD, decide on the investigation actions to be taken (if any), oversee the investigation and promptly report to the President the facts that have emerged from the investigation. The OVC reports to the President and its members are the Vice-President (chair), the General Counsel and the Chief, Office of Internal Audit. The OVC does not have a permanent secretariat; investigations are generally conducted by the Office of Internal Audit – which has this task stipulated in its charter – in coordination with the Office of the General Counsel. The investigation of allegations pertaining to project activities may also involve other IFAD divisions, the institutions concerned and other external entities – in all cases, however, the OVC retains a coordination role. The operational mandate of this body was reinforced in 2003 through, inter alia, its adoption of the investigation guidelines previously adopted by the United Nations and international financial institutions, which include provisions on protection from reprisals for individuals who help reveal corrupt practices (including whistle-blowers) or for those who are subject to unfair or malicious allegations.⁷

⁶ Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), New York, 1992.

⁷ With regard to the protection of staff from retaliation and from malicious accusations, the OVC has the obligation to fully protect from unauthorized disclosure the identity of any individual who makes a complaint on a matter subject to the authority of the OVC and to undertake, or otherwise engage management to undertake, actions so as to prevent retaliatory acts from taking effect or otherwise causing harm to the person. The OVC is also required to recommend that appropriate action be taken against the complainant where there are investigative findings tending to prove that the complaint was made in bad faith or with malicious or negligent disregard of the facts. In 2005, the OVC will review its policies and procedures relating to protecting whistle-blowers from retaliation, with a view to strengthening them, within the context of implementing IFAD's anti-corruption policy.

25. The OVC is not part of the disciplinary process. Decisions on the release of information on a case, the imposing of sanctions or the formal clearance of a staff member from allegations is done by the President after consultation with the Human Resources Division, the General Counsel and other officers as appropriate, in the light of the OVC report and findings.

26. In 2005 IFAD management considered various options for reinforcing its investigative capacity and decided to set up an investigation function as part of an appropriately renamed Office of Internal Audit and Oversight. The function will initially be staffed with one investigations officer and one audit/investigations assistant on temporary contracts and the Office will be provided with an adequate budgetary allocation to cover outsourcing, travel and staff replacement costs. The structure of the Office of Internal Audit and Oversight and the job descriptions will be revised to ensure effective support for this dual responsibility. Subject to the allocation of sufficient funding in the 2006 budget process, this structure will be put in place before the end of 2005 with the Office of Internal Audit and Oversight reporting directly to the President. The Chief, Office of Internal Audit and Oversight will also report to the Audit Committee. This structure and the relationship of the Office of Internal Audit and Oversight to the Oversight Committee and the Audit Committee will be reviewed before April 2007 based on the experience gained with implementation of the policy, and modifications will be proposed at that time as necessary.

Further Steps

27. Notwithstanding recent improvements, the Fund recognizes that, in keeping with evolving best practice among international financial institutions, further development of such controls will be necessary to ensure full adherence to a zero-tolerance policy. This will include incorporating these policies into legal and procedural documentation (where not already reflected); issuing appropriate guidance material to IFAD staff, projects and cooperating institutions; implementing a debarment or sanctions process for contractors and consultants; establishing a confidential “hotline” for allegations; and strengthening the Fund’s investigative capacity. IFAD is currently re-examining its arrangements for cooperating institutions in relation to the project supervision requirements it is developing, and it will take this opportunity to reinforce and formalize the manner in which project-related allegations are handled. These actions also address the lessons learned from the experience of the Oversight Committee, as set out in its first annual report (issued in June 2005).

28. IFAD will look for ways to further address anti-corruption issues more explicitly in lending and technical assistance operations (including project preparation and supervision), in country programming dialogue (including the country strategic opportunities paper process), and in policy dialogue and policy-intensive lending operations. This will include using the procurement assessments undertaken by other international financial institutions with broader exposure and experience in certain countries. Such efforts will be supported by and closely linked to the Fund’s ongoing participation in the harmonization and alignment initiatives of OECD/DAC and multilateral development banks, inasmuch as the IFAD policies set out herein are consistent with the anti-corruption policies of multilateral development banks. In this regard, IFAD has subscribed to the specific commitments of the Paris Declaration on Aid Effectiveness (March 2005), which includes effective action to address “corruption and lack of transparency, which erode public support, impede effective resource mobilisation and allocation and divert resources away from activities that are vital for poverty reduction and sustainable economic development”.

29. The planned actions are set out in more detail in the annex. The Fund will implement some of these actions during 2005, drawing on the resources allotted under the 2005 Programme of Work and Budget for this purpose. It will take further action in subsequent years, based on the assessment of experience gained and emerging needs.

VI. RECOMMENDATION

30. It is recommended that the Executive Board adopt the proposed IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations, as presented in this document and as defined in paragraphs 7, 10 and 12 above. A review of implementation of this policy, if adopted, will be presented to the Executive Board at its April 2007 session.

ONGOING AND PLANNED IMPLEMENTATION ACTIONS AND REQUIREMENTS

The Fund's full adherence to the policies set out in this paper will require strengthening its controls and introducing additional tools. The detailed plan for full implementation of the policy is set out below, with the caveat that the performance of certain actions will depend on the availability of budgetary resources.

Actions

Timing and resources

I. PREVENTION

Development of New Procedures and Normative Guidance

• **Update of internal procedures and legal instruments:** The existing IFAD procedural guidance relevant to this topic will be replaced or supplemented as necessary to reflect the new policies. This will involve the review, amendment where necessary, and approval of revised sections of the relevant documents and legal instruments, mainly the Human Resources Procedures Manual, the Headquarters' Procurement Guidelines and standard contracts with institutions, suppliers and consultants. These procedures were issued or revised during the last three years and already include provisions on anti-corruption. IFAD policy and practices for the protection of whistle-blowers and for financial disclosure by IFAD staff will be given particular attention in this context and appropriate provisions will be introduced as necessary.

The review of all procedures will be concluded by **30 June 2006**. It is expected that supplementary or revised procedures will be drafted and issued to staff within **a further three months** from the completion of the internal review.

• **Update of operational procedures and legal instruments:** This will involve the review, amendment where necessary, and approval of revisions to the IFAD procurement, consultant and audit guidelines, the Loan and Grant Administration – Operational Manual and the standard provisions of loan and grant agreements, and cooperation agreements and letters of appointment for cooperating institutions. The review will include comparisons with relevant best practices, guidelines and standards applied by similar institutions, including relevant programme guidelines related to implementing community-driven development projects. This work will entail negotiating with cooperating institutions and potentially amending IFAD's basic documents.

The review of all procedures will be concluded by **30 June 2006**. The clearance process will involve consultations with cooperating institutions, and the revisions may need to be approved by the Executive Board. **Implementation of these actions will consequently be aligned, as necessary, with the agreed Executive Board review dates of the relevant policies and with actions linked to the forthcoming revision of the IFAD supervision policy and the implementation of the new IFAD operating model.**

Awareness and Sensitization

• **Divisional presentations to all staff on the first annual report of the IFAD Oversight Committee** designed both to provide information on the role and work of the Committee and, most

The presentations were concluded in **September 2005**.

Actions

Timing and resources

importantly, receive feedback from staff on the Fund's efforts to prevent fraudulent and corrupt practices in its activities and operations. The feedback received will be used to further develop IFAD policies and practices in this regard.

- **The issuance of an anti-corruption awareness kit** including materials providing guidance on channels of communication available for reporting irregular practices, processes for dealing with different types of irregular practices, and the responsibilities and obligations of staff, other internal entities, cooperating institutions and other external entities in relation to potential irregularities.

The anti-corruption awareness kit will be issued **within five months** from the final approval of the policy.

- **The creation of an IFAD anti-corruption Intranet and Internet site** (referred to henceforth as the anti-corruption website) to contain the IFAD policy, definitions, information on the IFAD investigative process and responsibilities, guidelines to staff, projects, cooperating institutions and contractors, a section on frequently asked questions and information on the investigation cases handled by the Fund.

The first version of the website will be published before **the end of 2005** and its content will be augmented in due course.

II. DETECTION AND INVESTIGATION

Establishing Confidential Communication Facilities for Allegations

- **The creation of an internal drop-box for IFAD staff and a confidential anti-corruption hotline (telephone and fax numbers and e-mail address):** These numbers will be publicized to IFAD projects/programmes and local partners through a variety of means, including through the IFAD anti-corruption website. Special arrangements will be put in place to ensure adequate security in the operation of these lines. The Office of Internal Audit will establish an appropriate secure process for operating this facility on behalf of the Oversight Committee.

The confidential telephone and fax numbers will be activated **before the end of 2005**.

- **Confidential on-line reporting facility:** This Web-based facility will be included in the IFAD anti-corruption website. A secure information technology environment will be created to house the facility, which will be operated by the Office of Internal Audit on behalf of the Oversight Committee.

The on-line reporting facility is expected to be activated **before the end of 2005**.

Actions

Timing and resources

Coordination with Development Partners and Other External Entities

• **The assessment of current cooperating institution arrangements and the formalization or strengthening of arrangements for the communication and investigation of allegations pertaining to IFAD projects.** Steps will be taken to ensure that any allegations pertaining to IFAD projects and programmes are promptly reported to IFAD and that all such allegations are investigated by the Member State and cooperating institution involved or by IFAD. IFAD is currently re-examining its arrangements for cooperating institutions in relation to the project supervision requirements it is developing, and will take this opportunity to reinforce and formalize the manner in which project- and programme-related allegations are handled. Meetings have already taken place between IFAD and a number of cooperating institutions, and some initial elements have been agreed on in relation to the handling of allegations.

The first round of meetings with the main cooperating institutions is expected **to be concluded by the end of 2005** and it is hoped that coordination in this area will be significantly strengthened thereby, well ahead of the planned revision of IFAD supervision arrangements. The formalization of some of the agreed arrangements may have to be aligned, as necessary, with actions linked to the forthcoming revision of the IFAD supervision policy and implementation of the new IFAD operating model.

Strengthening IFAD's Detection and Investigative Capabilities

• **Setting up an investigation section within the Office of Internal Audit and restructuring the Office.** A proposal is under consideration (as part of the 2006 budget process) with regard to strengthening the Office of Internal Audit to enable it to meet its investigation responsibilities. More specifically, a two-person investigation section would be established within the Office of Internal Audit to manage the investigation responsibilities under the supervision of the Chief, Office of Internal Audit and the guidance of the Oversight Committee. Moreover, the charter and name of the Office will be revised to recognize its role in internal oversight.

This action will necessitate an additional allocation of approximately USD 250 000 to the Office of Internal Audit. Subject to the availability of this funding in the 2006 budget, the investigation section within the restructured Office of Internal Audit and Oversight will be in place **before the end of 2005**.

• **Strengthening the capacity of the Office of the General Counsel and of the Loans and Grants Administration Unit.** The Office of the General Counsel will be strengthening its capacity in 2006 by engaging external expertise and additional staff dedicated to assist the work of the Oversight Committee and implementation of the anti-corruption policy. The Loans and Grants Administration Unit is stepping up efforts to ensure proper review and follow-up of loan and grant administration issues, including the audit process. The unit was recently provided with additional staff resources for this purpose and is looking to further strengthen its capacity in this

This will necessitate an additional allocation of approximately USD 300 000 in staff costs and financial resources for the Office of the General Counsel. The estimated cost of the incremental capacity for the Loans and Grants Administration Unit linked to anti-corruption activities is not identified in its budget proposal as this function is an integral part of the unit's other activities.

Actions

Timing and resources

regard during 2006.

- **Review of the IFAD investigative structure.** A review will be conducted of the IFAD investigation and sanctions processes, in particular the roles, responsibilities and authority of the Oversight Committee, the Office of Internal Audit and the Office of the General Counsel in this regard. This will be included in the review of the policy's implementation in **April 2007**.

III. APPLICATION OF SANCTIONS

Implementation of a Debarment or Sanctions Process for Contractors and Consultants

- **A process will be developed and implemented for debarment of and/or sanctions against IFAD-financed contractors and consultants under IFAD projects** and strengthening of the process already in place with respect to contractors and consultants financed by IFAD's administrative budget. This will also involve drawing up a policy for the disclosure of information on debarred firms or consultants. The debarment/sanctions process, which is expected to be **finalized by the end of 2006**, will be presented to the Executive Board for approval.

Coordination with Development Partners and Other External Entities

- The IFAD offices responsible for investigations are actively participating in, or are following up closely on, interagency efforts and initiatives on sharing information and cross-debarment. The IFAD General Counsel is leading an ad hoc working group of United Nations legal advisers charged with reviewing the practices of the various agencies in order to identify areas of common concern and further interagency coordination in this regard. The practices of multilateral development banks in this regard will be used as reference. However, the role of cooperating institutions vis-à-vis IFAD-funded project/programme procurement (an element unique to IFAD) will necessitate a coordinated approach with such institutions to developing and implementing a debarment process tailored to the Fund's operational modalities. IFAD has already informally agreed on a number of actions with some cooperating institutions, and consultations with all other cooperating institutions will be needed to further develop the process. This activity, which has already started, will involve significant staff time from several IFAD divisions and will be ongoing.

