

U4 Expert Answer



Multilateral development banks' integrity management systems

Query

What is considered best practice when it comes to the content and scope of the efforts against corruption in the multilateral development banks?

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Caveats

This query is an update of a [previous query from 2010, which is available here](#).

Multilateral development banks (MDBs) have two primary roles in efforts to curb corruption. The first, and better known, is governance reform in client countries. The second is enforcing anti-corruption measures within an MDB's own operations, including preventive, investigatory and sanctioning activities. This query is concerned exclusively with how, at an organisational level, MDBs handle fraud and corruption in their own projects and operations.

Summary

As important players in international development, multilateral development banks (MDBs) are well-placed to play an influential role in global anti-corruption efforts. The scale and complexity of their operations nonetheless makes them vulnerable to fraud and corruption, both on the part of their own staff and external business partners, particularly in the area of procurement.

Starting with the 2006 Uniform Framework for Preventing and Combating Fraud and Corruption, and continuing with the 2010 Agreement on Mutual Enforcement of Debarment Decisions, MDBs have attempted to strengthen and harmonise their integrity management systems.

All five of the MDBs considered in this query have institutionalised anti-corruption departments. These bodies have a twin responsibility to investigate alleged instances of corruption, fraud, coercion and collusion, as well as mainstreaming integrity measures across core business areas in the MDBs. Indeed, while the former task is more

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Date: 14 September 2016 **Number:** 2016: 15

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conspicuous, perhaps the real challenge for MDB integrity teams is to go beyond providing ad-hoc advice to embed corruption risk management into the banks' risk management frameworks.

1. Multilateral development banks

Multilateral development banks (MDBs) are supranational institutions which provide financial support and professional advice to development programmes and whose shareholders are sovereign states (World Bank Group 2013a). The most prominent multilateral development banks are the World Bank Group and the four regional development banks: the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD) and the Inter-American Development Bank (IDB).¹

While each of these MDBs has its own independent legal and operational status, they all have similar mandates to finance projects, support investment and generate capital, thereby providing billions of dollars in loans and donor funding to less-developed countries each year (European Investment Bank 2016; Bretton Woods Law 2014). The scale of multilateral donor operations is growing, rising to a record US\$59 billion or 41% of total gross overseas development aid in 2013, of which MDBs accounted for around US\$18 billion (OECD 2015a).

With this financial clout comes considerable normative influence; the OECD (2015b) refers to multilateral institutions as “vehicles for upstream pooling of resources, facilitators of multi-stakeholder cross-border operations and setters of global standards and norms.” As such, MDBs are well-placed to play an influential role in global

anti-corruption efforts, but are themselves vulnerable to corruption.

The recognition of this has led to a real drive on the part of MDBs to strengthen and harmonise their integrity mechanisms over the last ten years to ensure that funds are put to their intended use. In particular, MDBs have created independent investigative offices and sanctions bodies to prevent, investigate and apply administrative penalties to entities engaging in fraud, corruption, collusion or coercion (the “prohibited practices”). Companies or individuals found guilty of misconduct risk debarment from MDB-financed operations and possible referral to national law enforcement authorities (Bretton Woods Law 2016).

Commentators consider the MDBs' sanctions regimes, which are administrative rather than judicial in nature, to have had an important effect on global anti-corruption compliance, especially since MDB regimes affect companies worldwide which may not be subject to national anti-corruption legislation, like the FCPA or the UK Bribery Act (Financier Worldwide 2016; Seiler & Madir 2012).

The World Bank is the leading MDB in terms of both scale of operations and its emphasis on internal integrity management. For this reason, while also considering the other four regional banks, this query focuses primarily on the World Bank Group.

MDBs and corruption

It is more crucial than ever that MDBs put in place strong integrity systems due to the increasing scale and complexity of their operations and the greater risk appetites they are displaying. The increasingly complex aid modalities employed by MDB bring corruption risks. For instance, the

¹ According to World Bank, MDBs are distinct from multilateral financial institutions like the European Investment Bank, the Islamic Development Bank, International Fund for Agricultural Development, OPEC Fund for International Development, which have “narrower ownership/membership structure and focus on special sectors.” More recently, the Asian Infrastructure Investment Bank (AIIB) has been

established, although it has yet to commence operations in a meaningful way. It is unclear, for example, whether the AIIB will adopt an enforcement approach consistent with the harmonised approach currently followed by the other MDBs, or whether it will become a signatory to the MDB cross-debarment agreement.

growing use of “blended” financial instruments, which incorporate public funds, loans and guarantee arrangements as well as private equity, entails a concomitant need for technical expertise and specialists to monitor awarding and implementation (Bilal & Kratke 2013).

Some of the MDBs, notably the World Bank Group, are also demonstrating higher risk appetites and moving towards programmes which “finance high volumes of low-value transactions across large geographical regions and remote locations, greater emphasis on fragile states, and an increased reliance on countries’ own systems” (World Bank Group 2015a).

The United Nations Joint Inspection (2016) found that there is a greater risk of underreporting or non-detection of fraud and corruption in multilateral organisations compared to bilateral donors given the scale and complexity of their activities, their aid modalities and the high-risk environments in which their programmes operate.

Corruption in MDBs

Comparative studies of donor agencies tend to indicate that multilateral development banks are among the top performers in terms of quality of aid delivered (Birdsall et al. 2010; Hashmi, Birdsall & Kharas 2014; Publish What You Fund 2016; Easterly and Pfütze 2008; Easterly and Williamson 2011; Custer et al. 2015; Findley, Milner & Nielson 2014). Nevertheless, while indexes of aid effectiveness can indicate good management practices within a donor agency, high quality aid does not itself mean that corruption is not a serious risk in MDB operations. Indeed, MDBs’ own reporting channels demonstrate that corruption affects projects in all areas of work.

In 2015, the World Bank’s Integrity Vice Presidency (INT) received and opened 323 preliminary inquiries related to fraud, corruption and collusion in World Bank Group-financed activities (World Bank Group 2015a). Investigations found allegations to be substantiated in 61 projects and 94 contracts of a total value of US\$523 million (World Bank Group 2015a). The ADB’s Office of Anti-Corruption and Integrity (OAI) received 285 complaints in 2015.

The OAI investigated integrity violations affecting at least 31 ADB contracts to the value of US\$394 million, of which fraud accounted for 60% of cases and corruption 21% (ADB 2016). The EBRD’s Office of the Chief Compliance Officer received 36 allegations of wrongdoing, while the AfDB’s Integrity and Anti-Corruption Division received 76 cases and the IDB’s Office of Institutional Integrity received 130 new complaints (EBRD 2016; AfDB 2015; IDB 2016a).

There is also anecdotal evidence that corruption is prevalent in MDB projects, with large scandals periodically hitting the headlines. A recent investigation by France24 (2016a) compiled a list of some of the most high-profile corruption scandals to affect World Bank operations. These included: a 2014 case in which a Dutch company paid an agent a 15% commission as a bribe in exchange for contract awards in the Iraqi health sector; another where a Dutch-Norwegian joint venture had provided kickback payments of US\$172,700 related to water supply and sanitation in Tanzania; and an April 2016 investigation which found that six companies had submitted fraudulent documents to qualify for grants in Vietnam (France24 2016a).

Types of corruption risk

The nature of MDB financing, which is often somewhere between development assistance and international finance makes MDBs vulnerable to a range of corruption risks from many different actors, and incidences of corruption vary from one-off fraud to multi-jurisdictional matters involving joint venture companies (France24 2016b).

Integrity risks can be divided into two broad categories, those associated with an MDB’s investment activities (client related risks), and the improper behaviour of a bank’s employees (personnel related risks) (EBRD 2014a). MDB integrity teams therefore have a dual responsibility regarding both client related risks (the so-called “prohibited practices” described below) and personal conduct related risks (insider trading, breaches of codes of conduct, whistleblower protection) (EBRD 2014a).

According to the annual reports of MDB special investigative bodies, common client-related risks include the solicitation of bribes or non-declaration of conflicts of interests by public officials in executing agencies and state-owned enterprises (World Bank Group 2015a). The practice of bribing government officials is becoming more sophisticated, including gifts in the form of fake study tours which can mask compensation paid for the awarding of public contracts (France24 2016b).

Contractors and consultants can make use of front companies, forge official documents, submit misleading bids, or overbill for sub-standard goods and services (France24 2016b). A recurrent issue is the non-disclosure of third-party agents by bidders for a tender, or the misreporting of these fixers' consultancy fees in bidding documents (World Bank Group 2015a). The head of the World Bank's Corruption Investigation argues that such local agents are "more effective at negotiating 'arrangements' around contracts, and also as they are harder to investigate and, ultimately, sanction" (France24 2016b).

In terms of personnel risks, the World Bank's Integrity Vice Presidency's annual update from 2015 reports opening 32 cases against bank staff relating to fraud and corruption which included the misuse of Bank Group funds, embezzlement, undeclared conflicts of interest and the solicitation of illicit payments to expedite disbursement (World Bank Group 2015a).

Likewise, the Office of the Chief Compliance Officer (OCCO) received 26 reports of alleged misconduct on the part of EBRD staff in 2015, and launched ten formal investigations in response, six of which due to breaches of the code of conduct (EBRD 2016). The France24 report details several incidences of World Bank staff who had committed bribery and demanded kickbacks for the awarding of contracts in Ethiopia, Kenya and Sri Lanka (France24 2016a).

Evidence from MDBs' investigative teams suggests that procurement and contracting are the most vulnerable areas to malfeasance in MDB operations. Half of all substantiated allegations of malfeasance in World Bank operations related to

corruption in the bidding process, while the AfDB reports that 26% of its cases related to collusive practice, a further 26% to procurement irregularities and bid manipulation in 16% (EBRD 2016; AfDB 2015; World Bank Group 2015a).

This is likely due to the manner in which MDBs operate, with significant proportions of their funds used to contract international development companies to provide a range of goods and services to MDB-funded programmes (World Bank Group 2014).

While companies working on MDB contracts effectively submit to their investigative jurisdiction and ultimately to administrative sanctions for "prohibited practices", it is also an enormous integrity challenge to manage these huge procurement budgets across every sector of the economy, from agriculture to public financial administration. Two recent cases illustrate the nature of the challenge. In October 2015 an INT investigation revealed that both companies bidding for a US\$47 million contract to supply health care equipment in Armenia had submitted false documents and later colluded to sell sub-standard goods to the project (France24 2016a). In another instance, four subsidiaries of China Energy Engineering Corporation submitted multiple bids to the same procurement tender (France24 2016a).

2. MDB integrity management systems

Faced with these corruption challenges, multilateral banks, led by the World Bank, have invested in the last decade considerable resources in improving internal controls and establishing appropriate integrity management systems to prevent and combat corruption in their projects and activities.

The five MDBs under consideration in this query all have similar organisational set ups to manage corruption and integrity risks. While operational and corporate staff are directly responsible for identifying, assessing and mitigating integrity risks (IDB 2016a), the MDBs have separate integrity bodies which are independent of all operational

departments and report directly to the president of the respective bank (Financier Worldwide 2016; EBRD 2016). In the World Bank Group this role is fulfilled by the Integrity Vice Presidency (**INT**), the EBRD has the Office of the Chief Compliance Officer (**OCCO**), the IDB has the Office of Institutional Integrity (**OII**), the ADB has the Office of Anti-Corruption and Integrity (**OAI**), while the AfDB has the Integrity and Anti-Corruption Division (**IACD**).

These offices generally have two functions (AfDB 2015):

- a reactive one to investigate allegations of wrongdoing of fraud and corruption
- a broader role of providing advice to operational staff on due diligence assessments, and mainstreaming integrity management into the MDBs' core work through training and feedback loops reporting on the findings of investigations

This split is formalised in the AfDB, whose IACD is comprised of two divisions. The Investigation Division carries out investigations into allegations of fraud and corruption in the bank's operations and activities, while the Integrity and Prevention Division is tasked with developing proactive measures to reduce the potential for misconduct in operations and transactions financed by the bank group (AfDB 2015).

As discussed below in the section on sanctions, competencies for the investigation and sanctioning of individuals and entities are further split across departments between the investigatory body, a sanctions office and a sanctions committee, which functions as the ultimate adjudicator if a sanctioned individual or entity contests the ruling of the sanctions office (IDB 2016a).

Prevention

Prevention of corruption implies that explicit anti-corruption policies, guidelines and internal integrity management systems are in place at the organisational level, backed by credible leadership and adequate resources that demonstrate the institution's firm political will and

institutional commitment to effectively address corruption issues.

Preventive activities include advising operational units on integrity risks in specific projects, providing training to internal staff and external partners, designing tools and guidelines to address integrity gaps, and sharing lessons learned from investigations with frontline staff.

Zero tolerance?

Over the last twenty years, MDBs have opted to promote "zero tolerance for corruption" policies to signal a tough stance on integrity issues (see World Bank Group 2012). The ADB's 1998 anti-corruption policy, for instance, stressed "the importance of a 'zero tolerance' policy when credible evidence of corruption exists among ADB staff or projects" (ADB 1998).

Zero tolerance policies are those that "punish all offenses severely, no matter how minor" (Skiba and Peterson 1999). Such policies signal a commitment to investigate, prosecute and punish all instances of corruption, regardless of severity (Taxell & De Simone 2014). The benefit of such policies is that they are argued to have a preventive effect and set the tone from the top (Taxell & De Simone 2014).

Some MDBs increasingly acknowledge that a literal interpretation of "zero tolerance" is unfeasible; a report on the IDB's anti-corruption framework notes that "the concept of 'zero tolerance' ... is noteworthy for its ambition and its compelling view of even-handed justice. It is also unrealistic, inefficient, and frequently counterproductive." (Thornburg et al. 2008). Most experts now recommend "triaging" integrity risks on the basis of cost-effectiveness, jurisdiction, materiality, credibility, verifiability and context to prioritise interventions (Johnsøn 2014; Taxell & De Simone 2014).

Common definitions of sanctionable practices

Any attempt to curb corrupt and fraudulent behaviour must be grounded in a clear definition of what constitutes a sanctionable practice (Chêne 2010). These definitions, and the resulting anti-corruption measures based upon them, are most effective when applied consistently by all

MDBs and used to promote a common understanding of MDBs' anti-corruption policies among staff and external partners.

Recognising this, the MDBs have made a concerted effort to cooperate to standardise their integrity efforts. In 2006, the MDBs came together with the EIB and the IMF under the International Financial Institutions' Anti-Corruption Task Force to agree upon a Uniform Framework for Preventing and Combating Fraud and Corruption (IFI Anti-Corruption Task Force 2006).

In addition to laying out minimum standards to which each MDB must adhere when conducting investigations into alleged wrongdoing (Seiler & Madir 2012), the uniform framework made the first attempt at standardising so-called "prohibited practices" (IDB 2016a; AfDB 2016a):

- corrupt practice, the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party
- fraudulent practice, any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation
- coercive practice, impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party
- collusive practice, an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party
- an obstructive practice (a) deliberately destroying, falsifying, altering or concealing evidence material to the investigation or making false statements to investigators in order to materially impede a bank group investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation; or (b) acts intended to materially

impede the exercise of the bank's inspection and audit rights.

The importance of a harmonised list of prohibitive practice definitions is neatly illustrated by an example from the EBRD. In 2014, the OCCO was unable to pursue a case in which a bank client had diverted the EBRD loan to a related entity for an unintended use because "misuse of bank resources" was not listed as a "prohibited practice" (EBRD 2016). In 2015, therefore, the heads of the MDB integrity offices agreed on the standardisation of the definitions of "abuse" and "obstructive practice" to harmonise investigations across the MDBs (ADB 2016).

Some MDBs have also incorporated additional sanctionable practices. The ADB, for example, may also sanction for conflict of interest, retaliation against whistleblowers or witnesses and failure to adhere to the highest ethical standards (ADB 2010).

Risk management & integrity due diligence

Proactive corruption risk management throughout the course of programme cycles is becoming increasingly commonplace among donors at country, sector and project levels (Johnsøn 2015). MDBs have also adopted measures designed to identify and mitigate risks to their projects through the use of tools like programme portfolio analyses, fiduciary risk assessments, integrity due diligence procedures, country financial accountability assessments and country procurement assessment reports (Chêne 2010; Lindner 2014).

The World Bank's 2012 update of its Governance and Anti-Corruption (GAC) Strategy reaffirmed the importance of assessing corruption risk by conducting a systematic analysis of GAC issues in the design and implementation of Country Assistance Strategies (CAS) and sector programmes, as well as regular risk reviews of projects and lending portfolios (World Bank Group 2012).

The World Bank's Preventive Services Unit (PSU) provides a number of services to operations teams and client countries tasked with building preventive measures into projects and conducting risk assessments. The nature of this assistance can range from upstream advice about how to

identify risks under the bank's Operational Risk Assessment Framework to the production of Governance and Accountability Action Plans and the design of preventive mechanisms like complaint handling systems (World Bank Group 2013b). In 2015, the PSU supported 94 high-risk projects in this fashion (World Bank Group 2015a). The PSU also supplies assessment tools such as the Fraud and Corruption Awareness Handbook, Self-Assessment of GAC Risks, Due Diligence Fact Sheets and an Online Red Flags Toolkit (World Bank Group 2013b).

There remain, however, significant deviations between MDBs in the application of such risk assessment tools, particularly across different types of lending (Taxell & De Simone 2014). Indeed, while all MDBs perform anti-corruption due diligence on their projects, the frequency in which such assessments are conducted and the type of information sought by MDBs varies considerably (Financier Worldwide 2016).

In operations involving the private sector, rather than sovereign states, it has become common practice for the MDBs to manage integrity risks through integrity due diligence (IDD) policies. Most of the MDBs have recently sought to enhance the scope of their due diligence assessments. The AfDB's IACD, for instance, has been working since 2012 to refine and strengthen the IDD framework in consultation with the other MDBs, and overhauled its IDD policy and guidelines in 2015 (AfDB 2015). The IDB has guidelines requiring project teams to conduct IDD for each non-sovereign guaranteed operation and update due diligence throughout the life of the project. Both the IDB and OCCO are increasingly focussing on tax issues and ownership structures in proposed projects to ensure that financed operations are not designed to evade or abusively avoid taxes (EBRD 2016).

IDD processes may vary in scope depending on the nature of operations and parties involved but generally involve the following steps (IDB 2016a; EBRD 2016):

- gather information
 - identify and screen beneficial owners
 - origins of a company and the source of wealth of key figures
 - understand corporate structure and business practices
 - obtain litigation/enforcement history
- identify risk indicators
 - opaque ownership structures
 - evidence of serious financial or ethical misconduct
 - associations with persons or entities on blacklists or debarments
 - connection to politically exposed persons (PEPs)
 - use of offshore jurisdictions
 - quality of anti-money laundering and combating financing of terrorism controls
- assess and mitigate risks through contractual covenants drafted by MDB attorneys
 - exposed individuals recuse themselves
 - potential conflicts of interest are disclosed
 - compliance programmes are adopted
 - supervision of the operation is increased

As well as developing guidelines on IDD, the MDB integrity offices also provide technical advice to operations staff responsible for conducting IDD on potential clients at the pre-investment, monitoring and equity exit phases. Where frontline staff identify substantial integrity concerns during the IDD process, MDBs' guidelines state that the potential project should be referred to the integrity offices. In the OCCO's case, a dedicated project integrity team then acts as a "second line of defence", providing independent counsel as to whether the risk is within tolerable limits (EBRD 2016).

MDBs report that the volume of such requests is increasing. In 2015, the OAI handled 196 requests for IDD advice and support covering 346 entities (ADB 2016), while the OCCO provided guidance on IDD for 478 potential projects (EBRD 2016), and the OII conducted 438 integrity due diligence consultations in 2015, on a range of areas including conflict of interest, beneficial ownership, politically exposed persons, offshore financial centres, and money laundering (IDB 2016a).

Operational guidelines supporting increased transparency, participation, disclosure and oversight

MDBs have established a set of guidelines and policies to support their staff to work in line with good practice in areas such as disclosure, public financial management, contract monitoring and procurement. The World Bank's GAC strategy, for example, insists on the importance of disclosure, participation and oversight, including third-party monitoring to prevent corruption (World Bank Group 2012). This includes strengthening supervision and oversight mechanisms, ensuring timely disclosure of project information and giving voice to beneficiaries using tools such as beneficiary surveys and citizen score cards.

Nonetheless, these policies should be reviewed regularly; a panel of international experts engaged by the ADB in 2014 to evaluate the bank's approach to anti-money laundering and integrity due diligence identified a lack of formal guidelines for staff as a key weakness. The ADB has subsequently issued a staff instruction to provide staff with a framework for conducting integrity due diligence (ADB 2016).

As noted in the section on corruption risks above, procurement is a particular sensitive area. Until the World Bank introduced a new section in its procurement guidelines in 1995, however, the procurement policies of MDBs did not explicitly address fraud or corruption (Seiler & Madir 2012). Since then, MDBs have overhauled their policies, and now generally require competitive bidding and increased transparency in procurement processes and have embedded anti-corruption clauses into contracts. In the last couple of years in particular, MDB integrity management systems have prioritised procurement as an area to tighten up, notably through the introduction of "Project Procurement Related Reviews", such as those conducted by the Office of Anti-Corruption and Integrity (ADB 2016). These reviews recommend project-specific integrity measures to lower corruption risks, and the recommendations are later revisited to ensure compliance.

Both the World Bank and the AfDB recently announced significant changes to their procurement procedures, in part to address

concerns about corruption (Swan & Harutyunyan 2016; AfDB 2014). As well as offering a wider range of procurement approaches, the framework provides an option for World Bank specialists to provide hands-on supervision on integrity matters, such as during negotiations or structuring business dialogue (World Bank Group 2015a). The framework is also intended to improve transparency through the option of engaging independent third-party monitors such as Transparency International (World Bank Group 2015a), and has been accompanied by the introduction of a [new electronic procurement planning and tracking platform](#) to facilitate monitoring via the use of open data (Kumar 2016). Finally, the bank is currently examining options to collect and publish beneficial ownership information for legal entities participating in bank-financed procurements (World Bank Group 2015a).

A key objective of the reform is to help borrowing countries improve their own procurement systems to address corruption risks at all stages of the procurement process. To this end, the new framework incorporates the World Bank's Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (World Bank Group 2015b). The framework also emphasises the importance of post-award contract management to guard against fraud and corruption, which has historically been neglected in MDB procurement systems (Swan & Harutyunyan 2016), despite the fact that experts have noted that contract administration is as important as contractor selection in curbing corrupt practices such as the use of sub-standard materials and fraudulent invoices (Gordon 2013).

The MDB Harmonisation of e-Procurement Group, which includes the ADB, IDB, AfDB and World Bank was constituted over ten years ago to promote a common understanding of e-procurement and harmonise policy work (MDB Harmonisation of e-Procurement Group 2007). However, the e-Procurement Group was tasked with fostering implementation of e-procurement across developing and low-income countries, rather than embedding it into MDBs' own procurement policies (Somasundaram 2008).

Consequentially, the group conducted surveys of national e-procurement systems (MDB Harmonisation of e-Procurement Group 2007), and developed e-procurement handbooks for governments embarking on e-procurement initiatives (World Bank Group 2011; ADB 2013), while overlooking their own systems. It was only in 2014 that the EBRD became the first MDB to offer its clients an e-procurement system covering the entire project cycle from planning to tendering and award of goods, works and loan-funded consultancy contracts. The system permits suppliers worldwide to obtain tender documents for contracts proposed under the EBRD's procurement policies and rules (EBRD 2014b).

Ethical standards

An important way to prevent corruption is to promote a culture of integrity and high ethical standards at all levels of the organisation. To achieve this goal, the MDBs' commitment against corruption needs to be communicated internally and to external partners through codes of conduct, ethical training and awareness raising activities.

It is now common practice for MDBs to make integrity policies available on their websites, including the details of whistleblower policies and investigative processes ([see the AfDB's policy here](#)). MDBs also publish codes of conduct for [staff members](#) and [directors](#) to articulate values, duties and obligations expected of staff (AfDB 2016b). Such codes typically cover conflicts of interest, abuse of authority, gifts and hospitality, and post-bank employment. Alongside specific regulations such as the EBRD's Conduct and Disciplinary Rules and Procedures (CDRPs), the codes establish the kinds of behaviour which constitute misconduct and the procedures to investigate and sanction unethical behaviour by staff (EBRD 2016). An outstanding integrity issue is that MDB contractors, consultants and temporary staff are typically not subject to the application of the banks' internal procedures such as codes of conduct or the CDRPs (EBRD 2016).

To raise awareness of integrity management issues and risk prevention, all the MDBs considered in this query provide training for their staff and partners, covering rules regarding ethics,

procurement integrity, and avenues for registering complaints about corruption, fraud and misconduct. These outreach activities aim to provide frontline operations staff and external partners with clear guidance on their responsibilities in integrity management and equip them with the requisite knowledge to detect, handle and report suspected incidences of corruption (Taxell & De Simone 2014).

As such, training is a sizeable component of the integrity offices' workload, and the MDBs have collaborated closely to develop training and advisory tools such as a handbook on fraud and corruption and a red flags manual (World Bank Group 2010). In 2015 alone:

- the INT trained 1,113 World Bank Group staff, executive board advisers, government officials and contractors in red flag identification and integrity risk management (World Bank Group 2015a)
- the OAI held 61 fraud and corruption workshops to train 2,350 participants (ADB 2016)
- the IACD got 1,135 staff to sign an integrity pledge (ADB 2015)
- the OCCO delivered training on integrity management to 251 members of staff and directors, as well as 23 nominee directors, and trained 526 members of staff on IDD (EBRD 2016).

The ADB has recently implemented a compulsory online course for new staff providing an overview of the bank's anti-corruption framework which must be taken within the first three days of a new staff member's employment at the bank (ADB 2016).

Monitoring, evaluation and learning

Increasingly, MDBs are institutionalising feedback loops in which investigative units summarise completed cases and share lessons learned with operational staff.

The World Bank Preventive Services Unit (PSU) is perhaps the most proactive in using information obtained through INT investigations to propose pragmatic measures to reduce the likelihood of similar incidences in the future. The PSU's

recommendations in final investigative reports are circulated to country, regional and sectoral teams involved, as well as client countries (World Bank Group 2015a). In 2015, the PSU produced 24 final investigative reports with prevention-related recommendations (World Bank Group 2015a).

Likewise, the OII places considerable emphasis on using investigations to inform future project assessments and improve the identification of integrity risks or prohibited practices (IDB 2016b). Its Reports of Investigation are jointly drafted by the investigative and preventive teams and identify deficiencies in the IDB's integrity management system to provide recommendations about how to address these weaknesses. The OII also produces Advisory Notes which inform operational staff and management of "time-sensitive indicators of integrity risks ... and recommend immediate actions to address imminent risks" (IDB 2016a). Similarly, the OAI regularly issues advisories to staff via an internal news bulletin which provides updates on allegations of fraud and corruption, new additions to the sanctions list and warns of new scams (ADB 2016).

Detection

Whistleblowing

Typically, any person who has knowledge of alleged corruption involving bank supported activities is entitled to report that information per mail or through secured hotlines (IDB 2016c; AfDB 2016c; World Bank Group 2016a). Complainants can be public officials from client countries, companies competing in MDB-funded procurement processes, bank staff or external whistleblowers (EBRD 2016). Interestingly, the origin of complaints varies significantly by individual MDB: while only 16% of complaints to the IDB's OII came from IDB staff, 48% of allegations reaching the ADB's OAI originated from ADB staff (IDB 2016a; ADB 2016). The principal receiving points for complaints are usually the banks' respective investigative bodies. In addition, the World Bank has also set up an independent, third-party hotline that forwards allegations to INT. The World Bank even launched a mobile app in 2013 allowing reporting of misconduct in bank supported projects and

providing access to the World Bank list of debarred firms and individuals (ITunes 2013).

Most MDBs have established whistleblowing protection provisions to encourage people involved with MDB supported projects to report suspicions of corruption and wrongdoing (see AfDB 2016d). The World Bank recorded a total of 122 staff members who made protected whistleblower disclosures to the INT in 2015, and notes that the use of whistleblowing mechanisms is on the rise (EBRD 2016).

One of the biggest obstacles that prevents staff or project partners reporting corruption is the fear of reprisals. All MDBs have whistleblowing provisions in place to protect whistleblowers against retaliation. The AfDB's [Whistleblowing and Complaints Handling Policy](#), for example, provides full protection for bank personnel against retaliation. Similarly, the IDB has a staff rule that prohibits reprisal against a staff member or third party for having submitted a complaint or participated in an investigation. The ADB even considers retaliation against whistleblowers a sanctionable practice in its own right (ADB 2010).

However, in practice, the effectiveness of whistleblowing protection has been questioned by several reports and evaluations. The Bank Information Center, an NGO monitoring governance, transparency and accountability issues at the World Bank Group notes that there is "a very strong culture within the bank about trying to solve things quietly and internally rather than going to the Integrity Vice Presidency" (France24 2016b). Indeed, there are reports that several whistleblowers have left the bank since revealing wrongdoing, voluntarily or otherwise (France24 2016b). The former executive director of the Governance Accountability Project also asserts that whistleblower protection mechanisms remain underdeveloped within the World Bank (France24 2016b).

As the "second line of defence" in integrity management, MDBs' integrity offices are therefore mainly reactive, responding to allegations of misconduct forwarded to them. Some of the MDBs are becoming increasingly proactive in seeking to anticipate and detect corruption risks.

The OII, for instance, has a mandate to launch investigations on its own initiative (IDB 2016a). The ADB's OAI conducts reviews of new ADB financed, administered and supported projects as a matter of course to identifying any vulnerabilities and, in addition, conducts pre-employment screening checks on candidates for ADB staff positions (ADB 2016).

Voluntary disclosure & negotiated resolution agreements

Since with the launch of the World Bank's [Voluntary Disclosure Program](#) in 2006, several MDBs like the AfDB have established self-reporting mechanisms with a view to facilitating the detection of corruption and increasing risks of detection for firms engaging in fraud and corruption (World Bank Group 2006; AfDB 2016e). These systems permit entities which have uncovered irregularities in its operations to disclose this information to the MDB in return for leniency in the application of administrative penalties. Companies choosing to self-report are required to commit to renounce bribery and implement a compliance programme which will be monitored by the respective MDB (Taxell & De Simone 2014).

Under negotiated resolution agreements (NRAs), the initial investigation will have been triggered by a complaint external to the alleged offender. In exchange for full cooperation with the MDB's investigation, sanctions are negotiable and usually lower than under standard debarment processes but higher than in voluntary disclosure cases (Taxell & De Simone 2014). NRAs function essentially as a prosecution agreement, and are usually conditional upon full access to a company's financial records by an independent team of investigators (Bretton Woods Law 2014). In 2015, the World Bank entered into 11 NRAs, and reports finding that the NRA option is encouraging a growing number of companies to self-report misconduct (World Bank Group 2015a).

While these schemes can reduce the costs of investigation and help MDB investigatory bodies to glean information related to other irregularities and corrupt practices, some experts consider that they privilege larger contractors able to afford

costly legal representation involved in negotiating with MDB sanctioning bodies (Taxell & De Simone 2014). Indeed, large multi-nationals, such as Siemens, SNC-Lavalin and Alstom, have participated in the World Bank's negotiated settlement process, which has in some cases allowed for the recovery of funds (France24 2016b).

Investigations

The World Bank's INT divides its investigations into external and internal investigations. External investigations examine allegations of the prohibited practices for which the bank is eligible to impose sanctions on entities doing business with the bank (World Bank Group 2015a). Evidence of wrongdoing by public officials is usually communicated to national authorities. Internal investigations look into alleged misconduct by bank staff affecting either bank-financed activities or administrative budgets, for which the investigatory team is provided unrestricted access to information and records relating to all bank activities, personnel and physical property (World Bank Group 2015a). The bank has adopted a policy of publicising the outcomes of staff cases with a view to deterring misconduct, creating an environment conducive to reporting, and signalling that it takes allegations of fraud and corruption seriously (World Bank Group 2015a).

In terms of external investigations, the MDBs have established common standards for investigations into the prohibited practices. Following the endorsement of the Uniform Framework in 2006, the focus of MDB anti-corruption efforts shifted to establishing a unified set of principles and guidelines to set out how the MDB's integrity offices should conduct investigations (Zimmerman & Fariello 2011). These efforts led to the 2010 Agreement on Mutual Enforcement of Debarment Decisions, which was based on the following six principles (Seiler & Madir 2012):

- the adoption of harmonised definitions of prohibited practices
- the establishment of standardised investigatory procedures

- the creation of internal, independent investigative bodies and distinct sanctioning authorities
- the publication of written notice to entities and individuals against whom allegations have been made, and the opportunity for them to respond
- the use of the “more probable than not” standard when assessing alleged violations of integrity standards
- the recourse to a range of proportional sanctions to fit the nature of the violation

These standardised procedures were last revised in 2015 (see ADB 2015).

Upon receiving an allegation, the MDB's investigative office first registers the complaint. The World Bank and the ADB log the complaint using case management software to track the progress of the investigation (Freshfields Bruckhaus Deringer 2010). During the pre-investigation phase, the investigative office evaluates the information it has received to determine whether the complaint is admissible. Complaints must concern a prohibited practice, relate to activities financed by the MDB, and include sufficient information to be credible. Where possible, the investigators corroborate the information using other sources. A preliminary report provides an opinion on the case's credibility, materiality and verifiability.

Where the allegation is found to be legitimate, a full investigation is launched. The fact-finding exercise may involve expert consultations, interviews with implicated parties, document reviews, site inspections and audits. In a recent interview, INT's external investigations manager stated that MDB investigation teams are increasingly succeeding through the use of open-source media bases and social media to identify the key players (France24 2016b).

The primary investigative tool is the audit clause the World Bank inserts into invitations to tender, which authorise the INT to audit the financial records of any company bidding, even unsuccessfully, for a contract (France24 2016b). Given the administrative nature of investigations the standard of proof is lower than in criminal

proceedings (Seiler & Madir 2012). As such, a decision is made by investigators whether the subject of investigation is more likely than not to have engaged in a prohibited practice (AfDB 2016f).

However, sanction decisions are not taken by the investigatory team, but rather, if the allegations are decided to be well founded and substantiated, the findings of the investigation are forwarded to the appropriate authority under the sanctions system, which could include national law enforcement bodies or the MDB's internal sanctions officer. In addition, the investigation team normally prepares a report of the investigation for relevant managers and operational staff (World Bank Group 2016b).

Sanctions

MDBs do not have criminal law enforcement powers. However, where MDBs are entitled to impose administrative sanctions over entities they have considerable authority; their international legal status means the only avenue to challenge their decisions is through the use of their own appeal mechanisms (Suzuki & Nanwani 2005). These administrative sanctions available to the MDBs are derived from the contractual protections established in funding and service agreements on MDB-funded programmes, as well as the debarment regimes that the MDBs have established since 2010 Agreement on Mutual Enforcement of Debarment Decisions (Financier Worldwide 2016). This agreement established that entities or individuals debarred for a period longer than one year by one MDB would be excluded from activities financed by all of the other MDBs, thereby raising the stakes of engaging in corruption and creating a sizeable deterrent effect (IDB 2016a).

Sanctions typically include reprimands, conditions imposed on future contracting or debarment which consists of declaring a company or an individual ineligible to participate in future bank supported activities, either for a period of time or permanently. Since the 2012 revision of its [Sanctions Procedures](#), the World Bank has made release from debarment dependent on the fulfilment of certain conditions, such as the

implementation of a compliance programme. Only the AfDB uses fines as a form of sanction, though the World Bank occasionally employs restitution (Financier Worldwide 2016). To give some idea of the frequency of sanctioning, in 2015 the IDB, ADB and World Bank sanctioned 53, 90 and 71 entities respectively (IDB 2016a; ADB 2016; World Bank Group 2015a).

Seiler and Madir (2012) provide a comprehensive overview of each of the MDB's sanctions regimes. Sanctioning systems work on a two-tier adjudicative principle. Based on the findings from the MDB investigative office, the first tier compliance officer will propose a sanction. If the entity under investigation contests this proposal, the case will go to the second and final tier in the form of a sanctions appeals body which makes the final decision.

Sanctions regimes are above all a reactive mechanism focused on the supply-side of corruption. While debarment is an effective means to preclude sanctioned companies from becoming repeat offenders and acts as a deterrent, it does not make it more difficult for other parties to commit a prohibited practice or help detect other violations (IDB 2016a).

Moreover, tackling the demand side is difficult as the MDBs have no mandate to penalise public officials (IDB 2016a). The OII nonetheless has an express policy of prioritising investigations into allegations against executing agency officials as they have highest potential harm because of their large sphere of influence over project execution and wide discretionary power. Even if the IDB has no sanctioning power over government officials, it believes the identification of vulnerabilities at the intersection with public administration is key to improving project outcomes (IDB 2016a).

Working with sanctioned companies

In 2010, the World Bank established the Integrity Compliance Office to work with sanctioned companies to improve their compliance programmes and implement effective risk management into their businesses (World Bank Group 2015a). Since then, 238 companies have been debarred with conditional release by the World Bank and to date 18 have been released,

having implemented an Integrity Compliance Programme (World Bank Group 2015a). At the end of 2015, 47 companies were actively engaged with the Integrity Compliance Office (World Bank Group 2015a).

Transparency

In recent years, MDBs have liberalised their access to information policies. Due to their extraterritoriality in terms of legal jurisdictions, relevant legal constraints (such as national data protection laws) on the external disclosure of cases are minimal (Fagan 2013). The World Bank publicly names all debarred companies on its [website](#), while the IDB proactively disseminates the List of Sanctioned Firms and Individuals with [automatic email notifications of those on the register](#). In addition, both the EBRD and the World Bank have taken the decision to publish the full decisions of their respective sanctions boards (EBRD 2016; World Bank Group 2016c).

Cooperation among MDBs on anti-corruption issues

As alluded to above, MDBs cooperate closely on integrity management, which is crucial so that companies and client countries do not turn to agencies that are less stringent on anti-corruption issues. Under the umbrella of the International Financial Institutions Anti-Corruption Task Force, MDB integrity departments now work according to unified guidelines for the investigation of fraud and corruption and have agreed to mutually enforce the debarment actions of other banks (Financier Worldwide 2016). Recently, MDBs have further harmonised how they hold corporate structures to account for prohibited practices committed by subsidiaries, particularly companies which may restructure following a decision to impose a sanction (Cross Debarment 2011).

The heads of the MDBs' Integrity Offices meet regularly, including at annual conferences such as the MDB Conference on Private Sector Integrity and the Conference of International Investigators (AfDB 2015; EBRD 2016). In 2015, the meetings of the MDB heads of integrity focused on more effect information exchange, greater cooperation in investigations into co-financed projects and areas for potential harmonisation of treatment

(EBRD 2016). Recently, the MDBs have also been exchanging information on their respective policies and treatment of offshore financial centres, as well as harmonising their definitions of “abuse” and “obstructive practice” to present a unified front on these issues (ADB 2016).

Cross-debarment

Arguably the most important area of cooperation is in terms of cross-debarring entities found to have engaged in prohibited practices. Since the [Agreement for Mutual Enforcement of Debarment Decisions](#) came into effect for the AfDB in 2012, all MDBs have the possibility to debar entities found by another MDB to have engaged in a prohibited practice. An individual MDB may decline to enforce a debarment decision in accordance with its own legal considerations, and is not required to explain the reasons for its decision, although in practice this “opt-out” is rarely used (Seiler & Madir 2012). The criteria for cross-debarment include 1) debarment has to be public; 2) it has to exceed one year; 3) it should be based on independent findings; and 4) sanctionable practice should have been committed within the previous 10 years (Multilateral Development Banks 2010).

This collaborative process aims at increasing the cost of corruption in development projects by preventing a company found to be using corrupt means by one development bank from obtaining contracts from another bank. The list of cross-debarred firms is available at www.crossdebarment.org.

Cooperation with law enforcement

MDB's integrity units do not act in isolation, on top of extensive and growing collaboration between themselves, they also liaise with the law enforcement authorities of their member states.

For instance, the AfDB and the World Bank work closely with agencies like the US Securities and Exchange Commission (Bretton Woods Law 2014). The AfDB's IACD has further signed memorandum of understanding with the East African Association of Anti-Corruption Authorities to facilitate information exchange, while the OCCO frequently liaises with the Financial Action Task Force, MONEYVAL (the AML compliance

body of the Council of Europe), the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) and the OECD Anti-Corruption Network for Eastern Europe and Central Asia (AfDB 2015; EBRD 2016).

To date, World Bank referrals to national law enforcement agencies have directly led to the conviction of 35 individuals and criminal charges brought against another 29 people (World Bank Group 2015a).

Finally, the World Bank has launched the International Corruption Hunters Alliance as a network of prevention specialists in enforcement agencies, senior representatives of several integrity units of bilateral development agencies and INT's preventive staff. Through targeted training and capacity building, technical support is provided to officials in anti-corruption agencies, attorneys general and other partners (World Bank Group 2015a).

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