

The background of the cover is a photograph of a crocodile in a body of water. The crocodile's head and upper body are visible, with its scales clearly detailed. The water is a calm, light blue-grey color. Some green grass is visible on the right side of the frame. A dark blue horizontal band runs across the middle of the image, containing the report's title. The ADB logo is in the top left corner.

ADB

REPORT TO THE PRESIDENT  
OFFICE OF ANTICORRUPTION AND INTEGRITY

# ANNUAL REPORT 2010

Asian Development Bank



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OFFICE OF ANTICORRUPTION AND INTEGRITY

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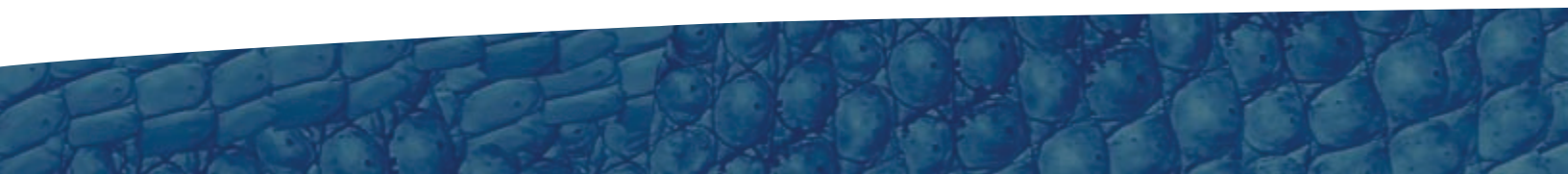
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# Abbreviations

ADB	–	Asian Development Bank
BPDB	–	Staff Development and Benefits Division
BPMSD	–	Budget, Personnel, and Management Systems Department
CV	–	curriculum vitae
DMC	–	developing member country
IOC	–	Integrity Oversight Committee
IPG	–	Integrity Principles and Guidelines
MDB	–	multilateral development bank
OAI	–	Office of Anticorruption and Integrity
PPRR	–	project procurement–related review
RETA	–	regional technical assistance
SAI	–	supreme audit institution



# Executive Summary

On 1 October 2010, the Office of Anticorruption and Integrity (OAI) of the Asian Development Bank (ADB) celebrated its first year as an independent office. This first year was a remarkable one, with many initiatives from 2009 bearing fruit, and a number of other initiatives starting in 2010.

One such initiative is the release of the revised Integrity Principles and Guidelines (IPG), which harmonizes ADB's investigative procedures with those of other multilateral development banks (MDBs), extends the reach and flexibility with which OAI can investigate, and provides more comprehensive sanctioning guidelines. It was approved by ADB's President in April 2010. In 2010, OAI developed and launched a secure internet portal to provide access to ADB's full sanctions list to government officials of ADB's developing member countries (DMCs) implementing ADB-financed projects. Access to the portal will help ensure that contracts are not inadvertently awarded to entities sanctioned by ADB.

Another milestone was achieved on 9 April 2010 when ADB President Kuroda joined the heads of other participating MDBs and signed the Agreement for Mutual Enforcement of Debarment Decisions. The significance of cross debarment is highlighted by the spot feature article on page 1 in this report. With this agreement, sanctions by one participating MDB may be recognized by other participating MDBs. While the introduction of cross debarment will place greater demands on



ADB-financed bridge project built according to specifications





ADB-financed project: better-built road

OAI's investigations team, OAI welcomes the marked increase in cooperation and information sharing among the investigative offices of the participating MDBs.

In December 2010, ADB celebrated World Anticorruption Day and the first anniversary of ADB's Whistleblower and Witness Protection provisions. While elements of whistleblower protection previously existed, the introduction of a specific administrative order regarding whistleblower and witness protection provided greater clarity and, more importantly, reconfirmed ADB's position that appropriate policy frameworks can contribute to achieving significant progress in fighting corruption. Since the introduction of the administrative order, the number of referrals filed by ADB staff has increased.

In 2010, ADB made it mandatory for all staff to be briefed on the importance of fighting corruption. The mandatory "Say No to Corruption" briefings stressed adherence with ADB's Anticorruption Policy for every staff member. OAI presented the briefings, which were supported and organized by ADB's Staff Development and Benefits Division. The briefings assisted ADB to empower each staff member with a greater understanding of how fraud and corruption occurs in development projects, and provided staff members with the tools with which to prevent and detect fraud and corruption in ADB-funded activities. OAI is especially pleased to note that departments are actively employing these tools in their activities.

In 2010, OAI received 188 new complaints, and investigations resulted in the debarment of 37 firms and 47 individuals. OAI conducted five new project procurement-related reviews (PPRR), which seek to actively encourage executing agencies to mitigate the risk of fraudulent and corrupt practices occurring in ADB-funded projects. As a direct result of these reviews, OAI has provided support, assistance, and training to operations departments, resident missions, and supreme audit institutions (SAIs) in the countries involved.

Also in 2010, OAI conducted anticorruption awareness training for national government departments in Nepal and Uzbekistan under its regional technical



ADB-financed project: well-constructed water pump

assistance initiative to reduce the risk of fraud and corruption occurring in ADB-financed activities by increasing understanding of ADB's Anticorruption Policy and raising awareness of potential irregularities in project implementation.

## Year Ahead

OAI anticipates a year of consolidation in 2011; the momentum achieved in 2010 will be continued into 2011.

With respect to its mandate to investigate allegations of fraud and corruption, OAI anticipates that increasing maturity in its investigative methodology, case management, and review processes will result in more targeted investigative activity in 2011. OAI will also find ways to shorten the time to complete investigations. OAI expects the implementation of cross debarment to increase the total debarments issued by ADB in 2011.

In addition, it is anticipated that ADB will continue to benefit from, and contribute to, greater harmonization and collaboration among investigative units of participating MDBs, particularly with the World Bank. Other aspects of investigative procedures and methodologies not already addressed in the IPG will be discussed, and guidelines and procedures will be developed, while existing guidelines will continue to be refined.

To continue to raise awareness of anticorruption issues, OAI expects to closely collaborate with the Budget, Personnel, and Management Systems Department (BPMSD) to deliver targeted training activities and to introduce online anticorruption courses for staff. OAI anticipates conducting five PPRs and to continue its RETA activities in at least two countries.



# Feature: Cross Debarment: Widening the Net to Prevent Corruption

## History

**T**he costs of corruption on development efforts are almost impossible to value accurately, but available estimates paint a grim picture. Estimates of the World Bank and International Monetary Fund put cross-border flow of proceeds from corruption, criminal activities, and tax evasion accounts at 3%–5% of the world's gross domestic product, or as much as \$3.61 trillion every year.<sup>1</sup> Bribery alone accounts for an estimated \$1 trillion a year worldwide.<sup>2</sup> Proceeds of corruption in bribes received by public officials from developing and transition countries are estimated to be between \$20 billion and \$40 billion per annum, equivalent to 20%–40% of official development assistance.<sup>3</sup> What is more, indirect costs of corruption (political, social, and environmental) often dwarf its direct costs.

Multilateral development banks (MDBs) lend about \$30 billion to \$40 billion a year to low- and middle-income countries to reduce poverty, improve the quality of living, and boost socioeconomic progress, and constitute the largest collective source of

development finance in the world.<sup>4</sup> As the largest development financier in Asia and the Pacific, ADB will contribute an annual average of \$17.5 billion from 2010 to 2012 (\$13.3 billion of which is sourced from ADB resources alone) to development efforts. ADB has a number of initiatives to prevent and mitigate the losses of its development financing to fraud and corruption, such as the Second Governance and Anticorruption Action Plan, which seeks to improve the implementation of its governance and anticorruption policies in its operations. ADB's involvement in the ADB/OECD Anti-corruption Initiative for Asia-Pacific is another such initiative.

ADB has long coordinated its efforts to protect its development financing from potential losses to fraud and corruption. In 2006, six MDBs endorsed common principles and guidelines for investigations conducted by their respective investigation units<sup>5</sup> and harmonized definitions of corruption, fraud, coercion, and collusion. In 2010, the MDBs signed the Agreement for Mutual Enforcement of Debarment Decisions (Agreement).

<sup>1</sup> Using the World Bank's 2007 global GDP estimate of \$72.4 trillion.

<sup>2</sup> World Bank. 2007. *Governance Matters*.

<sup>3</sup> The World Bank. *Stolen Asset Recovery (StAR) Initiative: Challenges, Opportunities and Action Plan*. September 2007.

<sup>4</sup> Bank Information Center, Institutions, [www.bicusa.org/en/Institutions.aspx](http://www.bicusa.org/en/Institutions.aspx) accessed 8 November 2010.

<sup>5</sup> International Financial Institutions Principles and Guidelines for Investigations.



## Cross Debarment

Before 2010, debarment by one MDB had no impact on another MDB. On 9 April 2010, ADB and four other participating MDBs<sup>6</sup> signed the Agreement to allow for recognition of each other's sanctions. Under this Agreement, entities sanctioned by one participating MDB may be ineligible to do business with another participating MDB.

ADB declared the Agreement to be in force on 9 June 2010. From that date, entities

debarred by ADB risk being similarly debarred by other participating MDBs. The World Bank and the European Bank for Reconstruction and Development also declared the Agreement in force in 2010.

Going forward, while the implementation details of cross debarment will continue to be refined in 2011, the Agreement is a major milestone in a united MDB fight against corruption and development effectiveness. More information about cross debarment can be found at [www.adb.org/integrity](http://www.adb.org/integrity)



### Cross-debarment statistics

Since the Agreement came into force, ADB notified the World Bank and the European Bank for Reconstruction and Development that it had sanctioned four firms and 10 individuals, who were eligible for cross debarment. In turn, ADB cross-debarred six firms and two individuals sanctioned by the World Bank.

<sup>6</sup> These participating MDBs are the African Development Bank Group, the European Bank for Reconstruction and Development, the Inter-American Development Bank, and the World Bank Group.



# The Office of Anticorruption and Integrity: Highlights

## Complaints and Investigations

**T**he year 2010 was yet another demanding one. While the number of complaints received is consistent with that of previous years the Office of Anticorruption and Integrity (OAI) noted an increase in the complexity and the materiality of the matters being brought to its attention.

Building on the successes of the centralized complaint screening process established in 2007, OAI further developed a dedicated Complaints Assessment Team (CAT) to improve the efficiency with which received complaints are screened. By having a small core group of OAI staff members who concentrate on assessing the complaints, conducting research, making initial inquiries, and gathering relevant documents and records, OAI is now better able to direct its limited investigative resources for greatest impact. The CAT prepares preliminary findings reports for complaints that warrant further investigation. These reports detail the background of the case, results of preliminary research, and review of relevant documents.

OAI has continued its research-based investigations project strategy. Rather than simply investigating complaints in isolation, OAI conducts active research looking for common denominators between or among complaints, such as comparable complaints in different aspects of a project or projects in the same developing member country (DMC), the identification of a similar mode of operation across a range of complaints, or multiple complaints made about the same or related persons or entities.

One specific research-based investigation resulted in significant success for OAI in 2010 when it completed an 18-month-long investigation into a large number of consortiums whose proposals shared striking similarities. OAI found that senior employees of a firm previously sanctioned by ADB had organized the competing consortiums, which were unaware that they were being manipulated. In October 2010, the Integrity Oversight Committee (IOC) debarred three firms and nine individuals for violating existing sanctions, and for fraudulent and collusive practices. These entities were subject to cross debarment by other MDBs. OAI cautioned an additional four other firms and six other individuals.

## Complaints Received

Consistent with the average number of complaints received over the past 9 years, OAI received 188 new complaints of integrity

**// Building on the successes of the centralized complaint screening process established in 2007, OAI further developed a dedicated Complaints Assessment Team to improve the efficiency with which received complaints are screened //**

**// Forty-nine percent of complaints were brought to OAI's attention by ADB staff, 47% came from concerned stakeholders, and 4% were the result of project procurement-related reviews //**

violations in 2010. Forty-nine percent of complaints were brought to OAI's attention by ADB staff, 47% came from concerned stakeholders, and 4% were the result of project procurement-related reviews.

E-mail remains the most common method of reporting concerns to OAI. Over 75% of all received complaints were sent by e-mail, either to OAI staff or to ADB's Integrity e-mail address ([integrity@adb.org](mailto:integrity@adb.org)).

## Complaint Screening

All complaints received by OAI are screened against four criteria during the screening process. OAI considers whether or not the complaints are

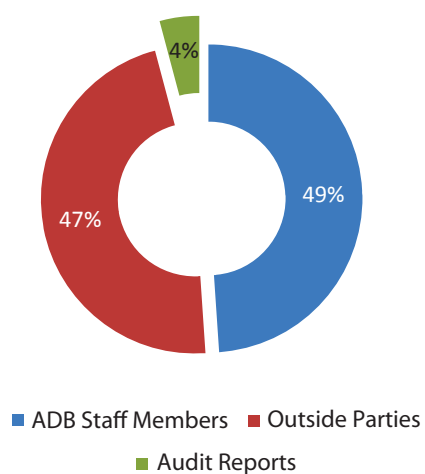
- within OAI's jurisdiction,
- credible,
- verifiable, and
- material.

Complaints that meet all four criteria are converted into investigations. OAI processed 220 complaints in 2010.<sup>7</sup>

## Investigations

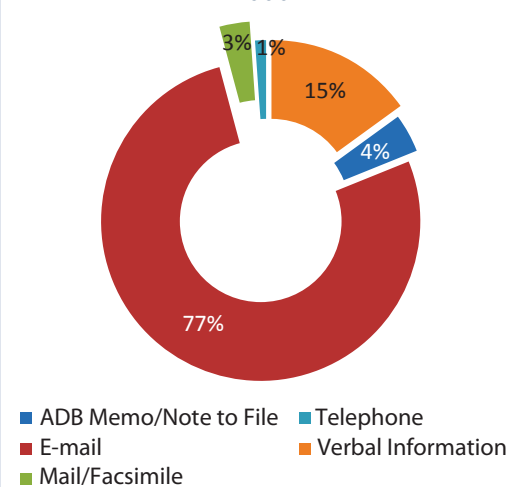
In 2010, OAI completed more complaint assessments than in 2009 and converted 99 complaints into investigations.

**Figure 1 Sources of Complaints, 2010**



Source: OAI.

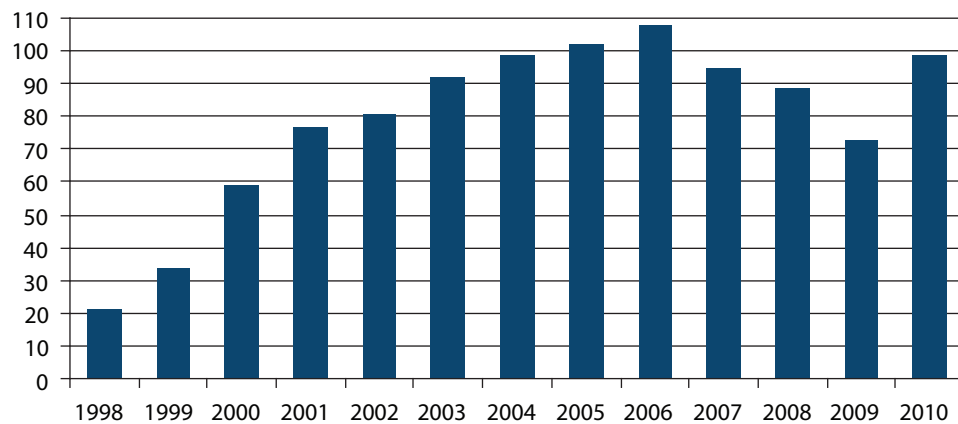
**Figure 2 Modes of Complaints Received, 2000**



Source: OAI.

<sup>7</sup> This figure includes complaints from past years which had not yet been assessed.

**Figure 3 Investigations Opened, 1998–2010**



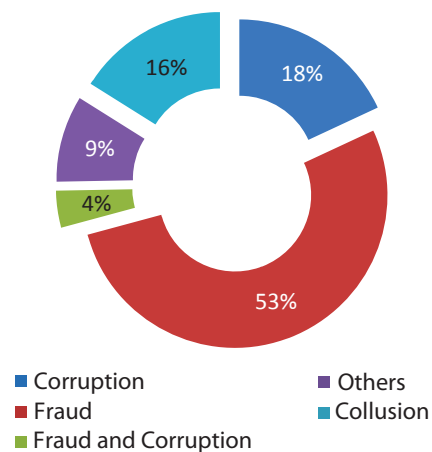
Source: OAI.

## The Nature of Investigations

As in previous years, OAI conducted investigations into allegations of corruption, fraud, collusion, and coercion. The majority (53%) of investigations concerned fraud. Allegations of corruption constituted 18% of complaints. ADB defines fraud as “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.” Fraudulent practices are easier to identify and verify than allegations of corruption, collusion, or coercion, as evidence of fraud, such as falsified documents or curriculum vitae (CVs), are easier to identify.

**// Fraudulent practices are easier to identify and verify than allegations of corruption, collusion, or coercion, as evidence of fraud, such as falsified documents or resumes, are easier to identify //**

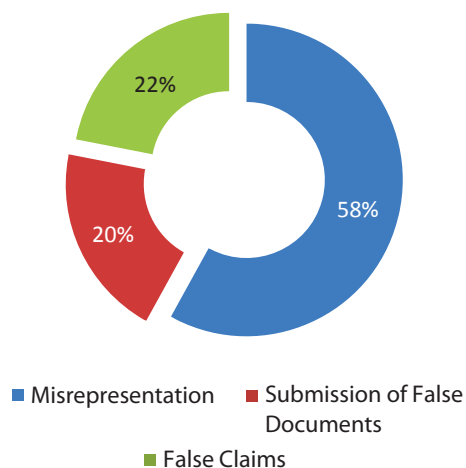
**Figure 4 Investigation Classification, 2010**



Source: OAI.

Misrepresentation of information (such as work experience, availability, personal qualifications, and financial statements) constituted 58% of all fraud investigations, while the submission of false or inflated claims and false documents (such as bank guarantees or bid securities) were 22% and 20%, respectively.

**Figure 5 Fraud Cases, 2010**



Source: OAI.

Eighty-seven percent (87%) of OAI's investigations focused on projects that ADB financed, supported, or administered.

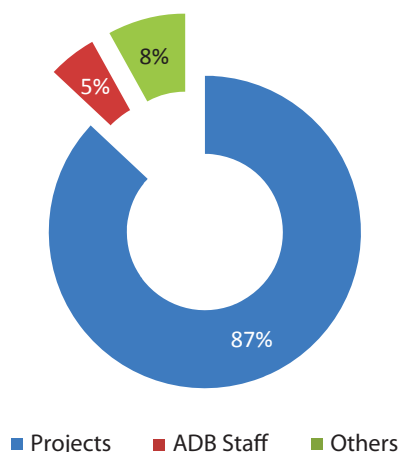
### Investigations by Sector

The majority of OAI's investigations in 2010 covered the water supply, waste management, and sanitation sector. In 2010, OAI opened 15 investigations covering the agriculture and natural resources sector, 13 investigations covering the transport and communications sector, and 12 investigations covering the energy sector.

### Referrals

The Integrity Principles and Guidelines (IPG), which governs OAI's investigative work, provides for referral of information relating to complaints to national authorities where appropriate. In 2010, OAI referred the findings of one investigation to the project's executing agency (EA) to ensure that the 22 sanctioned parties will not participate in any ADB-financed, administered, or supported activities during the ineligibility period.

**Figure 6 Subject of Investigation, 2010**



Source: OAI.

When OAI investigations find that ADB staff have engaged in misconduct, including violations to ADB's Anticorruption Policy, OAI refers its findings to BPMSD for their action. In 2010, OAI referred 10 cases to BPMSD, which handles disciplinary proceedings for staff misconduct, including violation of ADB's Anticorruption Policy.

OAI referred (i) procurement-related findings of three investigations to ADB's Central Operations Services Office, (ii) project implementation findings of 10 investigations to relevant project departments regarding project implementation, and (iii) irregularities found in one investigation to the Office of the Auditor General. OAI also referred its findings related to fake bank guarantees to a commercial bank.

**// In 2010, OAI referred the findings of one investigation to the project's executing agency to ensure that the 22 sanctioned parties will not participate in any ADB-financed or ADB-involved projects //**

Figure 7 Investigations by Sector, 2010		
	Water supply, sanitation, and waste management	20
	Agriculture and natural resources	15
	No sector <sup>a</sup>	13
	Transport and communications	13
	Energy	12
	Education	9
	Multisector	7
	Law, economic management, and public policy	5
	Health, nutrition, and social protection	4
	Finance	1

<sup>a</sup> These investigations are not covered by any sector because these cases involved ADB staff, consultants, and entities who violated their sanctions.

Source: OAI.



## Sanctions

At the end of an investigation, if OAI finds that ADB's Anticorruption Policy was violated, it reports the matter to the IOC, and submits recommendations for appropriate remedial action, including sanctions. OAI's reports to the IOC present OAI's findings, supporting evidence, responses, and documents provided by the subjects of interest, precedent cases, as well as any relevant mitigating or aggravating circumstances.

In 2010, the IOC met on 10 occasions to consider OAI's findings and recommendations from 23 cases. The IOC imposed sanctions on 37 firms and 47 individuals, reinstated 3 firms and 4 individuals after the expiration of the sanction period, and extended the sanctions of 10 individuals and 4 firms that violated ADB sanctions. OAI notified the World Bank and the European Bank for Reconstruction and Development (EBRD) of those sanctions that qualified for cross debarment under the Agreement for Mutual Enforcement of Debarment Decisions (Agreement). In addition,

**// The IOC imposed sanctions on 37 firms and 47 individuals, reinstated 3 firms and 4 individuals after the expiration of the sanction period, and extended the sanctions of 10 individuals and 4 firms that violated ADB sanctions //**

2 firms and 1 individual agreed to sanctions proposed by OAI.

Table 2 provides a history of sanctions imposed by the IOC since 1998, when ADB adopted its Anticorruption Policy.

A complete list of ADB's sanctions is published on its intranet, and is shared by e-mail with MDBs, development partners, and others with a need-to-know. In 2010, ADB launched a password-enabled website that enables authorized users to directly access this list online. OAI expects to increase the list of authorized

**Table 1 Sanctions Issued by ADB in 2010**

	1–3 Years	4–7 Years	10 Years	Indefinitely	Total
Firms	15	16	5	1	37
Individuals	17	7	1	22	47

Source: OAI.

**Table 2 Sanctions Since 1998**

As of 31 December 2010	Firms	Individuals
Total declared ineligible to participate in ADB-financed activities for a limited period or indefinitely	376	380
Reinstated upon appeal	4	4
Reinstated upon expiry of minimum sanction period	72	34
Cross-debarred entities (debarred by ADB pursuant to the Agreement)	5	2
Currently ineligible to participate in ADB-financed activities	300	342
Reprimanded	26	16

Source: OAI.

users and to publicize the website to all DMC governments, in close collaboration with ADB's operations departments, in early 2011.

On its website, ADB publishes the names of entities that were

- debarred by ADB for second or subsequent integrity violations;
- debarred by ADB for sanctions violation (i.e., attempting to participate in an ADB-financed activity while ineligible);
- debarred by ADB, but whom ADB has found impossible to notify (process avoiders);
- cross-debarred by ADB, pursuant to the Agreement.

Entities included in ADB's published list subsequent to 9 June 2010 may be subject to cross debarment by other MDBs. At the end of 2010, 38 firms and 36 individuals were included in the published sanctions list.

## Appeals

ADB permits sanctioned parties to appeal the decision of the IOC to the Sanction Appeals Committee. An appeal must be submitted within 90 days from the date of the notice of debarment. The appeal must be in writing, must provide the reason(s) for the requested review of the IOC's decision, and must contain new information that may have affected the IOC's decision and could not have been reasonably known at the time OAI finalized its investigation.

In 2010, ADB received three appeals from individuals and four appeals from firms. One appeal from an individual was successful and the sanction was lifted.

**// OAI advises that strong procurement procedures and financial management controls are effective in preventing misuse of resources and maximize development effectiveness //**

## Observations from Investigations

To strengthen operations, transparency, and development effectiveness, OAI shares observations and investigative findings with operational units, management, and development partners at the conclusion of investigations. Recommendations made from investigations in 2010 include the following:

- Review bid documents, including proposals, and look for red flags.
- Conduct basic due diligence to ensure the validity of claims being made and recommend executing agencies to do so as well.
- Request incorporation documents for companies to confirm financial beneficiaries and eligibility.
- Require direct contact information for consultants presented in proposals.
- Conduct more frequent site visits to the project site.
- Familiarize executing agencies with ADB's Anticorruption Policy.
- Strengthen awareness of institutional procurement requirements and contract administration practices (Administrative Order 4.07).

OAI advises that strong procurement procedures and financial management controls are effective in preventing misuse of resources and maximize development effectiveness.

## Improved Integrity Principles and Guidelines

In December 2010, OAI published its revised IPG together with ADB's Anticorruption Policy. The revised IPG includes cross debarment and further harmonizes OAI's investigate procedures and sanctioning guidelines with other MDBs. The IPG also provides OAI greater flexibility in conducting investigations and imposing sanctions. A description of revisions follow.



ADB-funded road project: implemented according to design



## Debarment period

The revised IPG clarifies the rules governing debarment periods. The period of debarment is now harmonized with the World Bank and set at a base level of 3 years. Time may be added or deducted depending on applicable aggravating or mitigating circumstances.<sup>8</sup> Additional time for subsequent violations was also added.<sup>9</sup> For first-time offenders, sanctions can range from 1 year to indefinite for individuals, and 1–7 years for firms. An individual may be debarred indefinitely for second and subsequent debarments. Firms can be debarred for up to 10 years for a second violation and for up to 20 years for subsequent violations.

<sup>8</sup> See Section 77.

<sup>9</sup> See Section 79.

## Liability of Sanctioned Entities and Related Parties

The revised IPG reiterates that parties are considered responsible for acts committed by employees, agents, or representatives acting in the capacity of representing the party, regardless of whether the act has been specifically authorized,<sup>10</sup> and allows IOC or OAI to extend the sanctions to other parties, including associated parties, principals of a firm, and/or other related parties, even if the related party was not directly involved in the violation.<sup>11</sup> To address situations where a party may circumvent its sanctions through associated parties, principals, or related parties, the revised IPG refines the list of factors to be considered in imposing sanctions on these related parties. In particular, the IOC or OAI will consider not only the influence that the subject of the investigation has over the related party but also whether the subject may obtain benefits through the related party.<sup>12</sup>

## Option not to contest OAI findings

Under the revised IPG, when a party concurs with OAI's findings and agrees to recommended sanctions, OAI may formalize the sanctions without the involvement of the IOC. An example of this can be found on page 14.

## Cross debarment

Consistent with the provisions of the Agreement, once a sanction is posted on ADB's website, it may be subject to recognition by other MDBs if provisions of the Agreement are met. Under this Agreement, all other participating institutions may enforce sanctions covering fraudulent,

corrupt, coercive, and collusive practices that are imposed and made publicly available by any participating MDBs. As such, participating MDBs<sup>13</sup> may also debar an entity that ADB has sanctioned and published on its website from doing any business with their respective institutions without further notice.

## Case Studies

This section presents some of OAI's more significant cases. They were, in part, selected to highlight the implementation of the IPG revisions and OAI's investigative methodologies.

## Amplifying the rules governing debarments

Under the revised IPG, the base sanction for integrity violations is now a 3-year debarment. However, the base sanction may be increased or decreased taking into account applicable mitigating or aggravating circumstances. For this purpose, the revised IPG enumerates the factors that the IOC and OAI may consider in imposing greater or lesser sanctions.<sup>14</sup>

**// Under the revised IPG, when a party concurs with OAI's findings and agrees to recommended sanctions, OAI may formalize the sanctions without the involvement of the IOC //**

<sup>10</sup> See Section 51.

<sup>11</sup> See Section 74.

<sup>12</sup> See Section 75.

<sup>13</sup> At present, the Agreement has been declared into force by ADB, EBRD, and the World Bank Group.

<sup>14</sup> See Section 77.



**// OAI's investigation established that the firm misrepresented the number and qualifications of international consultants working on the project, and the extent of their involvement in it, to embezzle money //**

**Example No. 1: Increasing the 3-year base sanction period to capture a case's particular circumstances**

In an investigation into allegations of fraud in an education project in Central Asia, OAI found that a consulting firm misrepresented the number and level of effort of international consultants working on the project. The firm provided falsified CVs, airline reservation forms, ground transportation receipts, boarding passes, timesheets, accommodation and per diem receipts, and reports in support of their claims. OAI found, however, that the CVs of three consultants were falsified and that two of the consultants did not work on the project at

all. Rather than seven consultants working in country for 1 month, OAI found that only four consultants were in country for about 2 weeks. The travel documents submitted, including the boarding passes showing flights allegedly taken, were manufactured.

OAI's investigation established that the firm misrepresented the number and qualifications of international consultants working on the project, and the extent of their involvement in it, to embezzle money.

In accordance with the revised IPG, when increasing the 3-year base sanction, the IOC considered the real and potential harm caused to the project, the sophistication of the integrity violation, the extent of management involvement, and obstruction of the investigation. A 7-year sanction was imposed on the firm and an indefinite period for the individuals in light of these aggravating circumstances.

**Example No. 2: Applying stricter sanctions for subsequent debarments**

Firm A, through its proprietor Mr. X, allegedly submitted falsified security documents to meet contract requirements under an ADB-funded



Project and executing agency officers who are processing claims must carefully scrutinize supporting documents. Unscrupulous entities have caught up with advanced technology and continue to devise more sophisticated means of defrauding development agencies. Hence, even machine-generated or digital documents, such as airline boarding passes, can be manufactured. As seen from the samples below, two different persons are presented as having taken the same flight and having sat on the same seat.





water supply project. OAI established, and the IOC concurred, that Firm A and Mr. X had engaged in fraudulent practices in submitting falsified security documents.

Mitigating circumstances that might have been taken into account in decreasing the 3-year base sanction were outweighed by the aggravating fact that the firm and its proprietor submitted this set of falsified security documents during an ongoing OAI investigation concerning a previous submission of falsified security documents by the same firm and proprietor. In that instance, the IOC sanctioned Firm A and Mr. X for 1 year each.

Considering that this is a subsequent debarment for Firm A and Mr. X, the IOC sanctioned Mr. X indefinitely. In imposing the second debarment for Firm A, the IOC determined that the 7 years run in seriatim or after the completion of the first 1-year sanction. The sanctions were published on ADB's website and cross-debarment notices sent to other MDBs at the expiration of the appeal period.

### **Extending the reach of sanctions to related parties**

To ensure that appropriate remedial and preventative actions are taken and that sanctions are not circumvented through related parties, OAI observes the provisions of the revised IPG involving employees, agents, and related parties.

#### **Example No. 3: Liability of parties over their employees and/or agents strictly interpreted**

OAI received an allegation that the security documents submitted by a bidder through an associated firm's employees as agents were falsified. These agents were authorized to prepare and submit the bid, represent and act on the bidder's interests, and execute the contract for an ADB water supply project.

Pursuant to paragraph 51 of the revised IPG, although the key officers of the bidder did not directly perpetrate the fraud, they

**// To ensure that appropriate remedial and preventative actions are taken and that sanctions are not circumvented through related parties, OAI observes the provisions of the revised IPG involving employees, agents, and related parties //**

were considered responsible for the acts of the firm's agents and the agents' employees. OAI's investigation confirmed that the security documents were falsified. Two firms and one key officer were sanctioned for 5 years each, while a second key officer was sanctioned for 3 years.

#### **Example No. 4: Preventing circumvention of sanctions by extending debarment to ghost firms**

OAI received an allegation that two bids for the supply and delivery of hardware and software packages were falsified and were provided in support of the winning bidder. OAI's investigation found that the two firms did not exist and that the winning bidder used their names as dummy bids to create the appearance of competition. The IOC considered OAI's findings and declared the winning bidder to be ineligible to participate in any ADB-financed, administered, or supported activity for 7 years. The same sanction period was approved for the two ghost firms to prevent their names from being used in future bidding processes in ADB projects.

The key officers who created the dummy firms were debarred indefinitely for fraudulent and collusive practices and bid manipulation. The IOC took into account the cooperation shown by one of the officers and accordingly imposed a lowered sanction of 2 years.



Firms are advised to observe due diligence when authorizing entities to act on their behalf because with regard to integrity violations, ADB considers “for any act or attempted act that would serve as a basis for remedial action by another party, including employees, agents or representatives, acting in the capacity of representing the party, regardless of whether the act has been specifically authorized.”

### **Applying “Negotiated” Sanctions: Non-contest of OAI findings by a subject of interest**

OAI received allegations that a consultant misrepresented his qualifications and ability to commence work for an ADB-financed project. OAI established that the consultant was not available to engage in full-time consultancy with ADB because he was still contractually bound to finish his engagement with another organization. OAI further determined that the consultant had falsely claimed earning a post-graduate degree in various CVs submitted to ADB.

OAI presented its findings to the consultant and, in accordance with the revised IPG, proposed a 2-year sanction. The consultant did not contest OAI's findings and accepted the proposed sanction.

### **Fortifying the fight against fraud and corruption by maximizing available resources and processes**

OAI has previously reported that techniques used to commit fraud and corruption in ADB-financed projects were becoming increasingly complicated and sophisticated. In response, OAI revised its approach to complaints assessments and investigations and pursued red flags identified during project procurement-related reviews (PPRRs). OAI also designed and conducted a series of training and orientation sessions to increase staff awareness of ADB's Anticorruption Policy and other relevant policies, guidelines, and procedures. This year, OAI saw its strategies reaping results.

### **Example No. 5: Untangling a web of integrity violations in a decentralized project setting**

The case described below is the result of the use of intensive research-based investigative strategies and extensive field investigations, which collectively unraveled a complex scheme to circumvent sanctions in an ADB-financed project.

Proposals of opposing consortiums contained significant similarities such as replication and common features. However, what initially appeared as evidence of fraudulent and collusive practices in bids for contract packages was later uncovered to be a scheme perpetrated by a firm previously sanctioned in 2005 to circumvent a 3-year sanction for fraudulent practices. The sanction extended to the firm's consulting arm and the latter's employees.

During the period of sanction, the consulting firm employed an elaborate scheme and a network of firms incorporated, managed, and/or staffed by its key officers and employees in order to participate in other ADB projects. In the process, partner firms were deceived into joining consortiums that were under the

**// OAI has previously reported that techniques used to commit fraud and corruption in ADB-financed projects were becoming increasingly complicated and sophisticated //**

## // Audits and reviews are useful tools in identifying irregularities uncovering red flags, which may be indicators that fraud and corruption are occurring in ADB-financed projects //

control of the sanctioned consulting firm. Evidence shows that these partner firms and individuals were not knowingly complicit in the alleged fraudulent and collusive practices, and had become victims of fraud themselves.

The IOC approved OAI's recommendations to (i) debar seven firms<sup>15</sup> and 15 individuals who were involved in fraudulent, collusive, and obstructive practices; and (ii) send caution letters to four firms and five individuals who cooperated with OAI. The sanctions imposed ranged from 3 years to indefinite debarment.

Of the 22 entities sanctioned, 12 were included in the list published on ADB's website and were among the first to be submitted to the other participating MDBs for cross debarment.

### **Example No. 6: Proactive involvement of project offices reinforces ADB's capacity to fight fraud and corruption**

Increasing proactive involvement of project staff strongly indicates a heightened awareness of fraud and corruption issues. OAI received an allegation from ADB staff that a

consultant submitted fraudulent receipts. OAI's investigation confirmed that the consultant claimed for out-of-pocket expenses using fraudulent receipts.

In straightforward misrepresentation cases such as this, the IOC would have previously imposed a 2-year debarment. With the revised IPG in place, however, the base period of 3 years was applied.

### **Example No. 7: Utilizing procurement red flags as aids to strengthen fraud detection**

Audits and reviews are useful tools in identifying irregularities uncovering red flags, which may be indicators that fraud and corruption are occurring in ADB-financed projects.

OAI looked into a series of red flags found by (then) Office of the Auditor General, Integrity Division that indicated possible fraudulent practices in obtaining materials for an office for project consultants. After an analysis of bidding documents and records, and investigations conducted in the field, OAI confirmed that one vendor firm fabricated the bids using the names and addresses of Firm A and Firm B, owned by a relative and a friend, respectively, initially suggesting collusion. However, apart from these relationships, no association was found between these unknowing proprietors and the vendor firm specific to the collusion.

The IOC sanctioned the proprietor and the firm responsible for the preparation of the fraudulent documents for 3 years. The IOC also approved sending warning letters to the other



Under the revised IPG, the IOC or OAI may take other remedial actions not amounting to sanction where parties are found to have committed a lapse not amounting to an integrity violation. This includes cases involving ordinary negligence.

The remedial actions include caution or warning. Although these do not affect a party's eligibility to participate in ADB-financed, administered, or supported activity, OAI may view the remedial action taken as an aggravating circumstance should concerns against the party's integrity be brought to OAI's attention in the future.

<sup>15</sup> As of 31 December 2010, one of the debarred firms signified its intention to appeal the IOC's decision debarring it for a minimum of 7 years.

proprietors cautioning them about the hazards of allowing other firms to use their documents in submitting quotes for ADB.

## Project Procurement–Related Reviews

One of OAI’s core activities is proactively conducting PPRRs in line with ADB’s efforts to manage for development results. PPRRs provide greater assurance that project funds are used for intended purposes for intended

beneficiaries, and contribute to OAI’s role in preventing and combating fraud and corruption. The supreme audit institutions (SAIs) of Nepal and the People’s Republic of China participated in 2010 PPRRs.

In 2010, OAI conducted five PPRRs in selected DMCs.<sup>16</sup> Two of these were limited PPRRs or, stated differently, PPRRs with a narrower scope,<sup>17</sup> to optimize review depth and use of OAI resources. Projects are selected for PPRRs by taking into account the size of ADB funding, the number of awarded contracts, the level of disbursements, inputs from operations

### PPRRs do:

- focus on procurement, financial management, and asset verification;
- assess adequacy of internal controls;
- identify irregularities and noncompliance;
- inspect project outputs;
- make recommendations to mitigate and/or eliminate fraud, corruption, or abuse of resources.

### PPRRs do not:

- evaluate to assess development effectiveness of ADB projects
- review project outcomes or development impact, which can only be assessed after finalization of a project.

**Table 3 Project Procurement–Related Reviews Conducted in 2010**

Loan No.	Project	Location
Loan 1772-PHI*	Infrastructure for Rural Productivity Enhancement Sector Project	Philippines
Loan 2096-SRI(SF)*	Secondary Education Modernization Project II	Sri Lanka
Loan 2122-CAM(SF)*	Education Sector Development Program	Cambodia
Loan 2151-IND*	Multisector Project for Infrastructure Rehabilitation for Jammu and Kashmir	India
Loan 2163-INO and Loan 2164-INO(SF)^	Community Water Services and Health Project	Indonesia
Loan 2219-PRC^	Hunan Roads Development III	People’s Republic of China
Loan 2503-KAZ^	MFF-CAREC Transport Corridor I Investment Program – Project I	Kazakhstan
Loan 2092-NEP	Decentralized Rural Infrastructure and Livelihood Project	Nepal
Loan 2254-BAN(SF)	Second Rural Infrastructure Improvement Project	Bangladesh

\* 2009 PPRRs, final reports issued in 2010.

^ Initiated in 2010 and preliminary draft report issued in 2010.

Source: OAI.

<sup>16</sup> These were Bangladesh, the People’s Republic of China, Indonesia, Kazakhstan, and Nepal.

<sup>17</sup> Bangladesh and Indonesia.



departments, and the potential benefit of a PPRR to the project. OAI endeavors to cover a spread of sectors and DMCs over the years.

In 2010, OAI issued four final reports from PPRRs conducted in 2009 and issued three preliminary reports from PPRRs conducted in 2010; the remaining two reports will be finalized in early 2011. Generally, final PPRR reports are posted on OAI's website.<sup>18</sup>

## Impact of Project Procurement-Related Reviews

In line with the national strategies of many DMCs, project design increasingly involves decentralized project implementation and procurement responsibilities, which involve local governments and often also involve beneficiary communities. Devolution, particularly to local governments with less capacity and experience

for financial management of internationally-funded projects, raises the risk that ADB project funds are not utilized for their intended purposes.

Three of the five PPRRs conducted in 2010 involved projects with highly decentralized project designs. OAI has identified common patterns and pitfalls identified with decentralized project implementation activity,<sup>19</sup> which it intends to share with a much wider audience than those directly involved with projects which OAI has reviewed. This will complement research findings demonstrating that projects with community involvement have much more developmental impact than those without, and help ADB and the executing agencies include elements in project design that increase this impact while mitigating the occurrence of fraudulent and corrupt activities on ADB-funded projects.



Inspecting an ADB-funded road project

<sup>18</sup> PPRR reports are posted in [www.adb.org/Integrity/project-procurement.asp](http://www.adb.org/Integrity/project-procurement.asp)

<sup>19</sup> OAI will publish these in [www.adb.org/Integrity/resource-center.asp](http://www.adb.org/Integrity/resource-center.asp)



**// ADB and DMCs are expected to fully consider and address PPRR-identified issues, risks, and recommendations for the remainder of the projects and when designing similar future projects //**

PPRRs identify red flags, which are indicators that ADB's Anticorruption Policy may have been violated. These are often manifested by unfair and/or uncompetitive procurement practices, premature deterioration of construction works, significant delays in contract completion, irregularities in supporting documentation, and incomplete documentary

trail. OAI conducts further investigation of red flags in accordance with the IPG.

ADB and DMCs are expected to fully consider and address PPRR-identified issues, risks, and recommendations for the remainder of the projects and when designing similar future projects. This year, ADB's Nepal Resident Mission requested and obtained OAI's assistance in sharing preliminary results and lessons learned from a 2010 PPRR during its country program review mission. ADB's Southeast Asia Department has actively followed up on findings resulting from a PPRR report of a Philippine project issued in 2010. The East Asia Department requested and obtained OAI's expertise and participation in its annual review in Mongolia. OAI encourages similar responses from other operational departments and project EAs.



ADB-financed project: defective work on gabion boxes

The PPRR reports resulted in various actions and recommendations:

- Enhancing effectiveness with respect to anticorruption measures, compliance with ADB guidelines, mitigating inherent risks, improving accountability, and strengthening contract supervision and project administration.
- Increasing awareness of, and compliance with, ADB's Anticorruption Policy.
- Establishing record management system to improve maintenance of records and supporting documentation.
- Instituting stringent internal control mechanisms in procurement and financial management practices to prevent fraud and corruption in ADB-financed activities.

## Learning and Development— Educating for Integrity

In conjunction with PPRRs, continuing education efforts for integrity in ADB-funded activities fulfill OAI's proactive and preventative roles in combating fraud and corruption.

The central message of all OAI training activities is that successful adherence to ADB's Anticorruption Policy is only possible with the active cooperation of everyone. In 2010, OAI collaborated with other departments to spread this message, which was disseminated through a series of workshops presented to ADB staff and projects.

### Internal Learning and Development Activities

In collaboration with Staff Development and Benefits Division (BPDB), OAI designed and conducted a mandatory briefing for all ADB staff, entitled "Say No to Corruption."

The mandatory briefing covered the following topics:



- ADB's anticorruption framework, including recent developments (e.g., whistleblower and witness protection provisions, and cross debarment)
- Introduction to integrity violations
- Roles and responsibilities of ADB staff
- OAI's investigative activities
- Identifying red flags

A total of 27 sessions were conducted for more than 2,100 staff in 2010. The purpose of the training was to create a common understanding of ADB's Anticorruption Policy, so that all ADB staff members can uphold and enforce ADB's values, principles, and policies in the exercise of their responsibilities.

OAI presented anticorruption sessions as part of 12 orientation programs and five induction programs for 281 new ADB staff members. Additional training provided included four sessions on due diligence presented within project implementation seminars organized by BPDB, a Resident Mission Finance

**// The central message of all OAI training activities is that successful adherence to ADB's Anticorruption Policy is only possible with the active cooperation of everyone //**





"Say No to Corruption" Briefing for ADB staff

and Administrative Staff Workshop, and a Disbursement and Procurement Workshop for ADB's resident missions.

OAI also conducted presentations for specific groups, including (i) a briefing for Private Sector Operations Department on the Annual Declaration of Compliance and the related administrative orders; and (ii) fraud and corruption awareness workshops for resident missions (Cambodia, Thailand, and Nepal) and the Controller's Department. A fraud prevention and detection workshop was also held for control officers at headquarters and in resident missions.

## External Learning and Development Activities

OAI's awareness-raising mandate includes advancing awareness of ADB's Anticorruption Policy and procedures. Under its regional technical assistance (RETA) 6447: Anticorruption Workshops, OAI is raising awareness of ADB's Anticorruption Policy and of risks of fraud and corruption by providing training to project stakeholders. In 2010, OAI conducted a series of 1- and 2-day workshops for 148 project staff and

government representatives responsible for the following projects in Uzbekistan and Nepal:

- Loan 2466-UZB(SF): Surkhandarya Water Supply and Sanitation Project
- Loan 2564-UZB(SF) MFF: Water Supply and Sanitation Services Investment Program
- Loan 2492-UZB: Water Resources Management Sector Project
- Loan 2090-UZB: Woman and Child Health Development Project
- Loan 2403-UZB: CAREC Regional Road Project and Talimarjan Clean Power Project
- Grant 0093/94: Rural Reconstruction and Rehabilitation Sector Development Program

**// OAI is raising awareness of ADB's Anticorruption Policy and of risks of fraud and corruption by providing training to project stakeholders //**

OAI's PPRR team conducted a workshop for Cambodia's SAI, the National Audit Authority of Cambodia. The team also supported the governance activities of the South Asia Department by providing an overview of ADB's Anticorruption Policy and PPRR activities for high-ranking Nepalese government officials.

## Other Education and Communication Initiatives

In 2010, OAI developed an intranet that features articles, advisories, and resources aimed at raising awareness of staff's roles and responsibilities in detecting and preventing integrity violations.

OAI continued issuing advisories to staff members and consultants at ADB headquarters via ADB Today, an internal news bulletin. It also disseminated the quarterly Anticorruption and Integrity e-bulletin, featuring anticorruption articles. The OAI external website ([www.adb.org/integrity](http://www.adb.org/integrity)) remained at the top 35 most-frequently visited topical sites on the ADB website. Furthermore, OAI published the 2009 OAI annual report in March 2010.

// The OAI external website ([www.adb.org/integrity](http://www.adb.org/integrity)) remained at the top 35 most-frequently visited topical sites on the ADB website //



# Appendix 1

## Significant Cases in 2010 Involving ADB-Financed Activities

Allegations	Investigative Findings	Case Resolution
<b>Fraud</b>		
<b>Misrepresentation</b>		
A firm submitted fraudulent documents in a tender for supply of laboratory equipment.	A firm submitted two fraudulent manufacturer's authorizations. One was not issued by the manufacturer, and the other had been issued for a different project.	The firm received a 4-year sanction. One individual received a 7-year sanction.
The quotations from two losing bidders (Firms B and C) may have been fabricated.	The winning bidder (Firm A) manipulated the bidding process by fabricating quotations from two nonexistent companies—Firms B and C. Firm B is a shell company formed by Mr. X who is the key officer and administrator of Firm A. Ms. Y, who is an assistant of Firm A, signed the quotation on behalf of Firm B. Aside from Firm B, Mr. X also colluded with Mr. Z and influenced him to fabricate a bid for Firm C.	Firms A, B, and C received a 7-year sanction. Three individuals (Mr. X, Ms. Y, and Mr. Z) received an indefinite sanction. One individual (Mr. W) received a 2-year sanction, as his cooperation during the investigation was considered a mitigating circumstance.
A consultant misrepresented his eligibility to work on a PPTA.	A consultant was hired for 12 days to draft a TOR for a PPTA. The consultant's contract clearly specified that the TOR was an expected outcome for that assignment. When two consulting companies hired the consultant to work on the resulting PPTA, he ticked the certifications box confirming that he was "not part of the team who wrote the terms of reference for this consulting services agreement."	The consultant received a 1-year sanction.
A consultant submitted fraudulent receipts in his claim.	OAI found that the consultant engaged in fraudulent practice when he submitted fraudulent receipts in support of his claim for out-of-pocket expenses reimbursements.	The individual received a 3-year sanction.

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Table continued

Allegations	Investigative Findings	Case Resolution
A firm produced two stamped receipts for the cash transfer of \$100,000 in local currency as payment for pipes which were never delivered.	An audit found that the corporate seals used to authenticate the stamp on the receipts postdated the dates of the receipts. This was proven through forensic review of the receipts. The corporate seal was found to have been kept in the safe of the firm contracted to execute the rehabilitation activities after the death of the director who was presumably paid for the undelivered pipes.	The firm received a 7-year sanction. One individual received an indefinite sanction.
A firm provided a falsified test report to meet tender requirements for the procurement of geo-textile bags.	The purported issuer of the test reports did not issue the same.	The firm and one individual received a 5-year sanction.
A consultant misappropriated project funds.	The consultant falsely represented that a share of the funds should be channeled through him and threatened that the funds would be withheld if this was not done. The IOC found that the consultant engaged in abusive, fraudulent, and coercive practice.	The consultant received an indefinite sanction.
A firm manufactured fake letters in the name of the project to encash their advance payment security of \$321,935.	The firm was contracted to build a hospital for over \$600,000. The company received 100% payment for the contract, although it only completed 8% of the construction work. The government sought compensation from the firm, including encashment of the payment security, only to find that the firm had falsified letters to the bank releasing the security. The government took ownership of materials on site, valued at \$168,000.	The firm and two individuals were sanctioned indefinitely.
A company submitted fake bids for providing materials for an office for consultants.	One vendor had fabricated bids using the name and address of a firm owned by his brother and the name and address of a firm owned by a friend.	The firm and one individual received a 3-year sanction, as their cooperation during the investigation was considered a mitigating circumstance.
A firm provided a falsified work certificate to meet tender requirements for the design, supply, erection, testing, and commissioning of a transmission line in a DMC.	The firm, when queried about the authenticity of the work certificate, (i) immediately initiated internal investigations; (ii) determined that two of its employees had knowingly falsified and submitted the work certificate; (iii) assumed full responsibility for the actions of its employees; and (iv) took a number of corrective actions, including termination and demotion of the employees found responsible, and reeducation of all employees on the firm's code of ethics and clean business operations.	The firm received a 1-year sanction, as its full cooperation and its independent remedial actions were considered mitigating circumstances.

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Table continued

Allegations	Investigative Findings	Case Resolution
A firm misrepresented its country of incorporation.	The firm declared in ADB's Consultant Management System that it was incorporated in Hong Kong, China. However, the firm was in fact incorporated in the British Virgin Islands, which is not an ADB member country.	The firm and two individuals each received a 2-year sanction.
A firm's agents submitted fake bank security.	The agents were required to prepare and submit bids, and sign and implement contracts carried out in the DMC. During contract implementation, fake bank security documents were submitted. Although the key officers of the firm did not directly perpetrate the fraud, they were considered responsible for the acts of its agents, regardless of whether the act was specifically authorized.	Two firms and one individual received a 5-year sanction. One individual received a 3-year sanction.
A consultant misrepresented his availability to commence work for ADB and his academic qualification documents.	The consultant was not available to engage in a full-time consultancy role with ADB because he was still contractually bound to finish his engagement with a different organization. The consultant failed to disclose this information to ADB at the time information was sought regarding his availability to start work on a specified date. He also misrepresented one of his academic qualifications in various CVs he had submitted to ADB as the relevant educational institute confirmed that while said consultant had commenced graduate studies in a particular field, he had not completed the course and was therefore not eligible to claim it as an academic qualification.	The consultant received a 2-year sanction.
A firm misrepresented the completed status of past activities to qualify for contracts on an ADB-funded activity.	The firm presented that it had completed four specific projects related to a specific activity, and presented financial proposals well below the estimated price for the activity. The company had not, in fact, completed two of the presented past activities. The clients for those projects reported that the company was unable to execute the contracts which were then awarded to others to complete. As a result of the fraud, the company was awarded two contracts, which it failed to complete.	The firm received a 5-year sanction.  The company's partner and one individual were warned for negligence and failure to conduct due diligence.

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Table continued

Allegations	Investigative Findings	Case Resolution
A firm working on a road construction contract falsified price indexes for two commodities over 2 years.	Monthly reports purported to be from an official source were presented as justification for price adjustments. As a result of the falsified documents, the contractor was overpaid by approximately \$175,000. The overpayments were withheld from subsequent payments when the fraud was discovered.	The firm received a 5-year sanction.
A joint venture comprising three firms engaged in a fraudulent practice.	OAI established that timesheets submitted were fraudulent and established that the representative directors of the firms misrepresented consultancy inputs. OAI presented its findings to the president director of the lead firm representing the joint venture and proposed a 3-year sanction covering all three firms, and each of its president directors. The joint venture was given the option to either accept the proposed sanction or to request that the case be brought to the IOC.	The president director of the lead firm did not contest OAI's findings and accepted the proposed sanction on behalf of all firms and representative president directors.
A consultant misrepresented information in his CV.	The consultant misrepresented his past work experience and provided a false certificate to secure the position of senior resident engineer/team leader on a road construction activity. The consultant continued to misrepresent himself during the investigation.	The individual received a 4-year sanction. Project officers were advised to conduct due diligence to confirm the accuracy of information provided in CVs, particularly for key personnel.
A firm, through its proprietor, submitted falsified bank security documents to meet contract requirements under a loan.	The firm and its proprietor had engaged in fraudulent practices by submitting falsified bank security documents. The bank, which allegedly issued the certificates, denied the authenticity of the bank security documents. This was exacerbated by the fact that the falsified documents were submitted during an OAI investigation into an earlier submission of falsified bank security documents by the same firm and proprietor.	The firm received a 7-year sanction.  The proprietor received an indefinite sanction.
A local firm proposed two national consultants who no longer live in the country and were unaware that their CVs were used.	A local consulting firm partnered with an international consulting firm to provide 12 local consultants to conduct a feasibility study related to an infrastructure project. Ultimately, only a few of the initially proposed national consultants worked on the project. One of the proposed national consultants confirmed that his CV was used without his knowledge. The consultant denied knowledge of the company or having submitted his CV to them and informed OAI that the signature on the CV was not his.	The local firm received a 3-year sanction.

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Table continued

Allegations	Investigative Findings	Case Resolution
A firm significantly overcharged an executing agency for learning software. It was also suspected that the software had been pirated.	The software was appropriately licensed, but the project had been overcharged by between 400% and 700%. OAI identified a range of forged documents used to present that the software had been manufactured in one country when, in fact, the software had been manufactured in another country. The forgeries were made to circumvent import restrictions. OAI also determined that the winning firm and one of the losing, competing bidders were owned, managed, and operated by the same family.	Two firms and three individuals received a 3-year sanction.
A firm misrepresented its previous work experience.	The firm had proposed a highly qualified international consultant to provide services as a strategic planning expert to an ADB project. The firm claimed that the consultant became ill and was not available to work on the project after the firm won the contract. OAI found that the consultant was precommitted to another activity and, although he had some discussions with the firm about the consultancy, he had not committed to it. The firm misrepresented the consultant's awareness of and ability to work on the project. OAI found that e-mails provided by the firm purporting to be from the expert, which indicated that the expert was too ill to commence the project, were fraudulent.	Three firms and one individual received a 5-year sanction.
A firm misrepresented the number and qualifications of international consultants working on an education project and embezzled money.	The consulting firm misrepresented the number and level of effort of seven international consultants presented as working on the project. Falsified airline reservation forms, ground transportation receipts, boarding passes, timesheets, accommodation and per diem receipts, and reports were submitted in support of the misrepresentation to claim more expenses than were actually expensed. The company also falsified the CVs of three consultants.	One firm and its affiliates received a 7-year sanction. Four individuals received indefinite sanctions.

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Allegations	Investigative Findings	Case Resolution
Firms submitted identical proposals.	OAI uncovered a scheme to evade sanction perpetrated by a firm previously sanctioned in 2005 for fraudulent practices. The sanctioned firm participated in an ADB-financed activity through the agency of a number of its employees and associated firms in violation of the sanction. The firm defrauded and deceived several partner firms and their principals who were not aware of the sanctioned firm's background.	Eleven individuals received indefinite sanction, nine of whom were submitted for cross debarment. Four firms received a 10-year sanction, three of which were submitted for cross debarment. Two firms and two individuals received a 7-year sanction. One firm and two individuals received a 3-year sanction.  Four firms and five individuals were cautioned.
<b>Conflict of Interest</b>		
A consultant was conflicted in handling a procurement matter.	The consultant, through his involvement in institutional procurement, was conflicted in his relationship with the company that was awarded the purchase orders for goods, and failed to inform ADB of this conflict of interest. OAI presented its findings to the consultant and proposed a reprimand. The consultant disputed the reprimand and requested that the case be presented to the IOC. The IOC decided that the proposed sanction of reprimand be reduced to a caution taking into account the consultant's level of involvement in the procurement process, the supervision provided to the consultant, the consultant's lack of procurement expertise, and the lack or absence of evidence that he engaged in corruption.	The consultant received a warning.

ADB = Asian Development Bank, CV = curriculum vitae, DMC = developing member country, IPG = Integrity Principles and Guidelines, IOC = Integrity Oversight Committee, OAI = Office of Anticorruption and Integrity, PPTA = preparatory technical assistance, TOR = terms of reference.



## Appendix 2

# Significant Cases in 2010 Involving ADB Staff Members

Allegations	Investigative Findings	Case Resolution
<b>Fraud</b>		
A staff member misrepresented his claim for school subsidy and dependency allowance.	The staff member was eligible for dependency allowance as the spouse's salary was less than the maximum permitted income and he did not misrepresent his claim for school subsidy.	BPMSD handled the case. The allegations were unsubstantiated.
A staff member allowed the occurrence of a systematic fraud in a resident mission's procurement of goods and services.	The staff member was personally involved in the preparation of purchase orders and he failed to note material similarities in competing quotations. The staff member was aware and obliged to report integrity violations in the resident mission's procurement but failed to report the same. The staff member failed to cooperate and did not respond fully and truthfully to OAI's investigation.	The matter was reported to BPMSD which recommended disciplinary action. BPMSD did not proceed with the case because issues could be raised on the time limit for bringing charges and the evidence was insufficient to initiate formal disciplinary proceedings.
A former staff member submitted fraudulent medical claims to Vanbreda International.	OAI substantiated the allegation and established that the former staff member submitted substantial medical claims supported by fraudulent prescriptions from two clinics and fraudulent invoices from a pharmaceutical store. The former staff member admitted the allegations and agreed to reimburse Vanbreda International.	The matter was reported to BPMSD. OAI recommended termination of the participation in PRGMIP and reimbursement to Vanbreda International. BPMSD terminated the former staff member's participation in PRGMIP. Options to recover the amount from the former staff member are being considered.

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Allegations	Investigative Findings	Case Resolution
A staff member falsified a food service bill.	<p>The waiter wrote Staff A's name and ID number in an executive dining room invoice containing only a signature.</p> <p>When Staff A did not pay the invoice, the food services unit forwarded it to the payroll unit for deduction. Staff A claimed that he was not in ADB headquarters on the date indicated in the invoice and could not have therefore availed of EDR services. It was Staff B, another staff member, who actually signed the invoice and eventually paid for it. There is some resemblance in the name of Staff A and Staff B, and the signature of Staff A could be mistakenly read as Staff B's.</p>	The allegations were disproved.
A staff member claimed housing allowance while staying in a friend's house.	The staff member stayed at a friend's house for a month upon expatriation to the Philippines. He did not claim housing allowance during the period of his stay at a friend's house.	The allegations were disproved.
A staff member misrepresented his qualifications in his Personal History Form.	BPMSD informed OAI that the staff member had been investigated and disciplinary action had been imposed prior to the time the allegations were made to OAI.	In view of BPMSD's action, the case was closed.
A former staff member was closely associated with Mr. A, who is a director of companies that were known to be engaged in corrupt activities.	OAI was not able to substantiate relations between the staff member and Mr. A.	The allegations were unsubstantiated.
<b>Corruption</b>		
<b>Conflict of Interest</b>		
A staff member used his position to hire relatives as consultant.	Extensive search of national database and regulatory authority records, field inquiries with families, neighbors, and former schools did not reveal relations between the ADB staff member and the consultants. The staff member did not participate in the recruitment, drafting of the TOR, or implementation of the consultant's contracts, or otherwise improperly influenced any stage of the process.	The allegations were disproved.

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Table continued

Allegations	Investigative Findings	Case Resolution
A staff member engaged in pilferage of ADB construction materials for personal and business interests.	The staff member failed to disclose his personal business interests and positions in a number of companies. He worked on various personal business projects within office hours, using ADB's contractual personnel and information technology resources. The staff member deployed contractor's personnel to work on his personal project outside of ADB while they were supposed to be on duty at ADB. The staff member also used his own company's truck on an ADB project through contractor and subcontractor.	The matter was reported to BPMSD. In the course of the disciplinary action, BPMSD accepted the staff member's resignation.
A staff member was also an employee of a national university.	The staff member was officially on leave without pay from the university. He has a pending application for early retirement from the university effective after the expiry of his leave without pay.	The matter was referred to BPMSD. The allegations were unsubstantiated.
<b>Corruption</b>		
<b>Kickbacks</b>		
A staff member received kickbacks from distribution companies; shared price information with suppliers.	Prices offered by suppliers varied, which disproved the allegation that they received price information.	The allegations were unsubstantiated.
<b>Other</b>		
<b>Misconduct</b>		
A staff member cheated on his leave benefits.	The staff member was absent in three separate occasions without official leave applications. In the three separate occasions, the staff member e-mailed his supervisors that he would be absent due to either family matters or that he was not feeling well, but failed to subsequently apply for leave. The failure was not deliberate.	The matter was reported to BPMSD. The staff member was reprimanded. The amount equivalent to 3 days of his salary was deducted.
A staff member earned airline miles for an ADB-financed event.	The staff member prepared the contract for group booking of rooms in a hotel for an ADB forum. The contract indicated the staff member's personal frequent flyer account number for crediting of the complimentary airline miles earned.	The matter was referred to BPMSD. Disciplinary proceedings are ongoing.
A staff member abused his authorities in implementing human resources policies.	The vacancy advertisement for the position was made in accordance with established procedures and was approved for posting by BPHR. BPMSD was within its discretion when it waived the tenure requirements and applied ADB's under-filling policy due to exceptional circumstances.	The allegations were unsubstantiated.

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Table continued

Allegations	Investigative Findings	Case Resolution
A staff member shared information on bid results with Firm A pending the procurement process.	The information purportedly provided by the staff member was limited to the bid of Firm A, which was acceptable at that stage of the recruitment process. The staff member acted in accordance with ADB practice in dealing with queries.	The allegations were disproved.

BPHR = Human Resources Division; BPMSD = Budget, Personnel, and Management Systems Department; CV = curriculum vitae; OAI = Office of Anticorruption and Integrity; PRGMIP = Post-Retirement Group Medical Insurance Plan; TOR = terms of reference.



## Office of Anticorruption and Integrity 2010 Annual Report

This report presents the accomplishments of the Office of Anticorruption and Integrity in 2010. It highlights its achievements on case screening and investigations, project procurement-related reviews, and learning and development. It features cross debarment, describes the revisions in the Integrity Principles and Guidelines, and includes case studies of significant investigations in 2010.

### About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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