

**Fighting  
corruption  
is MY  
responsibility.**



**OAI**

**OFFICE OF ANTICORRUPTION AND INTEGRITY  
2016 ANNUAL REPORT**





I AM

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AND I PLEDGE  
TO FIGHT CORRUPTION BY

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"I pledge to have the courage to report to OAI any possible integrity violations in ADB activities."

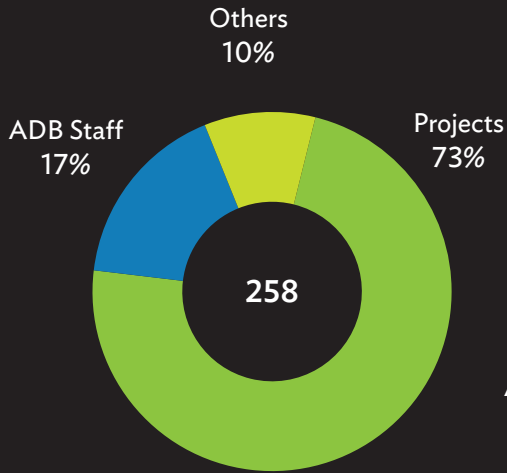
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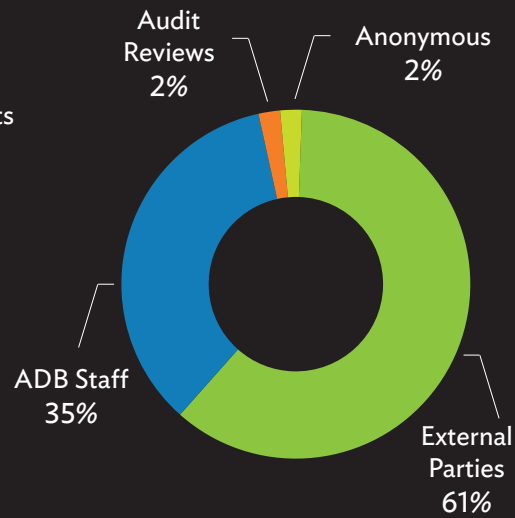
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# 2016 AT A GLANCE

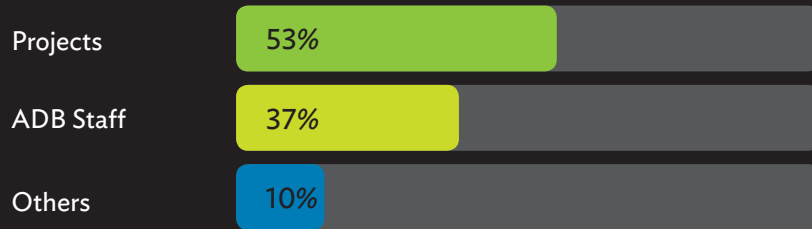
## COMPLAINTS RECEIVED



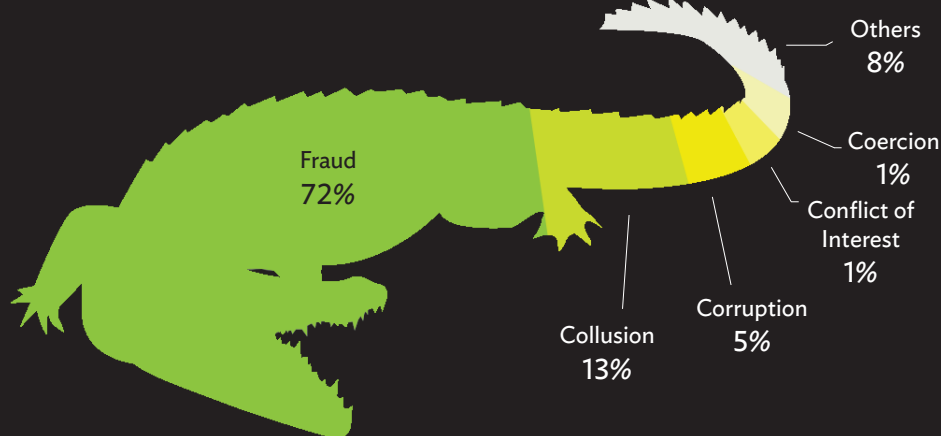
## SOURCES OF COMPLAINTS



## FOCUS OF INVESTIGATIONS

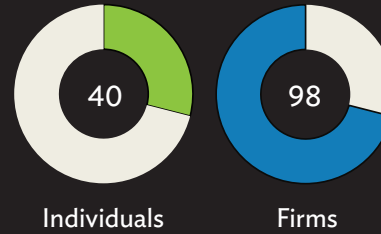


## TYPES OF INTEGRITY VIOLATIONS INVESTIGATED

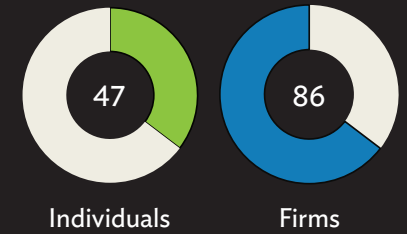


## SANCTIONS

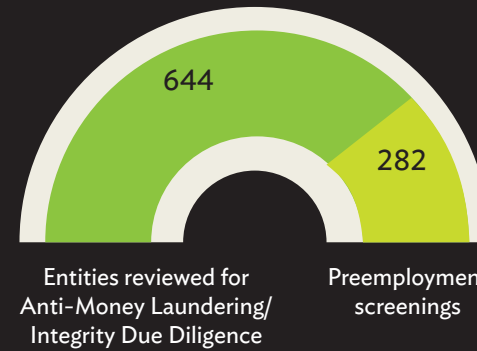
### ADB Debarments



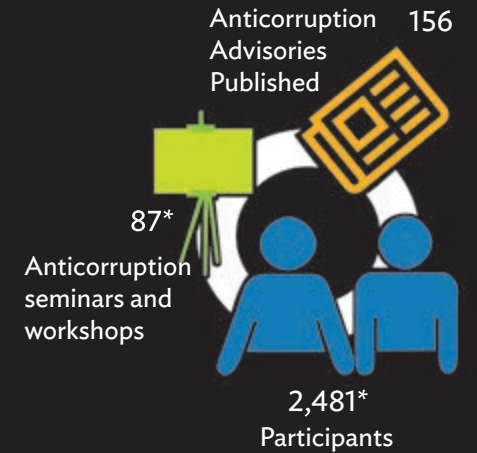
### Cross-Debarred



## ADVISORY



## COMMUNICATIONS AND OUTREACH



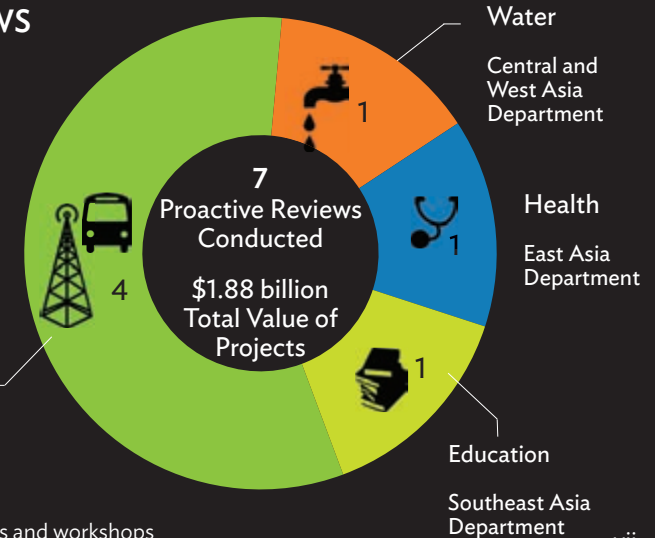
## PROACTIVE REVIEWS

7 Reports Issued

37 Integrity risk management reviews in preapproval project documents

Transport and Information and Communication Technology

Southeast Asia Department: 1  
South Asia Department: 1  
Pacific Department: 2



\*Includes external and internal seminars and workshops

# Executive Summary

*“With increasing demand by citizens for more integrity, major corruption scandals regularly emerging, and progress made on the tax transparency agenda, the fight against corruption has gained prominence.”<sup>1</sup>*

The menace of corruption, money laundering, and fraud continues to grow in sophistication against the landscape of an ever-complex and technologically sophisticated globalized economy.

The Office of Anticorruption and Integrity (OAI) acknowledges these realities. Tax secrecy, tax evasion, and aggressive tax planning erode domestic tax bases and undermine the effectiveness of domestic tax systems. Greater global collaboration and partnerships, particularly among international financial organizations and policy makers, is needed.

In response to these global developments, and recognizing its role as an international financial institution (IFI) with a mandate to foster the economic growth and development of its developing member countries (DMCs), ADB has approved an update to its Anticorruption Policy to address tax integrity issues.<sup>2</sup>

Concurrently, OAI continued to combat corruption through both enforcement and prevention strategies. In 2016, 98 firms and 40 individuals were debarred for integrity violations. In addition, ADB cross-debarred 86 firms and 47 individuals and submitted 10 firms and 8 individuals for cross-

debarment by other signatories to the 2010 Cross Debarment Agreement.<sup>3</sup> Nine firms and one individual were conditionally nondebarred, 18 firms and 9 individuals were reprimanded, and 16 firms and 13 individuals were cautioned. OAI also concluded 33 investigations where ADB staff were found to have engaged in integrity violations. To date, the Budget, Personnel and Management Services Department (BPMSD) has imposed disciplinary measures on 11 ADB staff.

OAI conducted seven proactive reviews, known as Project Procurement-Related Reviews (PPRRs), of ongoing ADB-financed projects. PPRRs identify noncompliance issues, irregularities, and integrity concerns, with respect to project procurement, disbursements, and delivery of project outputs.

ADB project teams submitted 300 Integrity Due Diligence (IDD) advisory and review requests to OAI, covering 644 entities. A total of 2,481 participants benefited from 87 OAI training events for staff and external stakeholders, organized to equip them with anticorruption knowledge, skills, and tools to ensure project integrity. OAI enhanced these

<sup>1</sup> Source: Strengthening Anti-corruption and Integrity for Productivity, Inclusiveness and Development. OECD May 2016.

<sup>2</sup> Refer to OAI's feature article "Enhancing Tax Transparency in Asia and the Pacific" on page 6 for more on this.

<sup>3</sup> This brought the number of ADB debarments imposed from 1998 to date to 1,261 firms and 787 individuals.



outreach efforts through various media (i.e., print, web, social media, and live interactions) distributed to both internal and external audiences.

OAI values meaningful partnerships with external stakeholders and comparator institutions. A PPRR was conducted in collaboration with the Nordic Development Fund (NDF), which cofinanced the project. OAI continued to harness partnerships with multilateral development banks and other anticorruption partners through harmonization efforts, dialogue, joint reviews and investigative information sharing. OAI met with the Heads of Integrity from other IFIs<sup>4</sup> on three occasions, and separately met with five development institutions.<sup>5</sup> OAI leverages on its training events to build and maintain external stakeholder<sup>6</sup> partnerships.

In the delivery of its mandate, OAI collaborates closely with ADB's Office of the General Counsel; BPMSSD; Private Sector Operations Department; Office of Administrative Services; Sustainable Development and Climate Change Department; and the Strategy, Policy, and Review Department.

## Looking to the Future

Heeding ADB President Takehiko Nakao's call to redouble ADB's efforts in the fight against corruption, OAI plans to implement several significant projects in 2017.<sup>7</sup> ADB has allocated \$2 million to provide DMCs with technical assistance to counter money laundering and financing of terrorism. Further, ADB intends to provide technical support to assist DMCs tackle tax integrity issues and promote their domestic resource mobilization. Concurrently, OAI will prepare new tax Integrity Due Diligence guidelines for ADB's nonsovereign operations in collaboration with stakeholders.

OAI will further ensure a respectful ADB work environment through a newly established Respectful Workplace Unit. This will include mandatory anticorruption and respect at work training for all staff.

With the infusion of additional resources approved and anticipated for 2017, OAI expects to deliver a more diversified portfolio of services.

<sup>4</sup> World Bank, Inter-American Development Bank, and European Bank for Reconstruction and Development.

<sup>5</sup> Nordic Investment Bank, Nordic Development Fund, Nordic Environment Finance Corporation, Asian Infrastructure Investment Bank, CDC Group plc. (Development Financial Institution owned by the United Kingdom).

<sup>6</sup> These include executing and implementing agencies, supreme audit institutions, anticorruption commissions, civil society organizations, consultants, contractors and suppliers.

<sup>7</sup> President Nakao's full speech may be accessed online (<https://www.adb.org/news/speeches/welcome-remarks-international-anticorruption-day-takehiko-nakao>).

"I pledge, through my example, to demonstrate high levels of integrity, fairness, and transparency."





1000\$

UNO  
CONSTR  
#FOR

# Enhancing Tax Transparency in Asia and the Pacific

Tax evasion and aggressive forms of tax planning erode the tax bases of governments worldwide and undermine the authority of their domestic revenue systems. The effects of eroding the tax base of developing countries in Asia are severe.<sup>8</sup> The post-2015 development agenda<sup>9</sup> recognizes that domestic resource mobilization (DRM) is essential to provide governments with sustainable revenue resources to finance the Sustainable Development Goals.<sup>10</sup> It calls for developing countries to strengthen their tax systems, reduce illicit financial flows, and tackle corruption as pressing development priorities.

The Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) is the multilateral framework for transparency and exchange of information for Organisation for Economic Co-operation and Development (OECD) and non-OECD economies since 2000. The Global Forum has been at the forefront of the global transformation from tax secrecy to tax transparency. Its initial mandate was to promote the widespread implementation of the international tax standard for exchange of information on request (EOIR). This has now been

supplemented by the mandate to promote the universal acceptance of a new international tax standard for the automatic exchange of information (AEOI). Together, these two complementary tax standards will substantially improve the ability of tax authorities to combat tax evasion and ensure that their tax laws are being properly applied.<sup>11</sup>

OECD has been promoting an action plan for an internationally coordinated and comprehensive form of international tax rules to reduce opportunities for base erosion and profit shifting (BEPS)<sup>12</sup> through legal forms of aggressive tax planning by multinational corporations. This action plan requires and/or encourages governments to introduce substantive measures into domestic law to increase tax transparency and curtail the ability of multinational corporations to engage in BEPS. The United Nations, the International Monetary Fund, and the World Bank Group are also involved in promoting BEPS prevention measures and, together with the OECD, have established the Platform for Collaboration on Tax to better support governments in addressing tax challenges, including BEPS.

<sup>8</sup> Developing countries lost \$5.6 trillion in illicit tax flows in 2001–2010, which includes amounts lost through tax evasion; Asia accounted for 61% of the total. D. Kar and S. Freitas. 2012. Illicit Financial Outflows from Developing Countries 2001–2010 Washington, DC: Global Financial Integrity. Experts speculate that annual revenue losses because of tax evasion are of a magnitude that approximates official development assistance worldwide (more than \$120 billion per year). OECD Development Assistance Committee. 2009. Investing in Development: A Common Cause in a Changing World. <https://goo.gl/SyM7cP>. Commentators estimate that offshore tax evasion in the developing world is substantially more extensive, e.g., Global Financial Integrity. 2008. Illicit Financial Flows from Developing Countries: 2002–2006. See <https://goo.gl/RcLHfS> estimated illicit financial flows at \$850 billion–\$1 trillion a year. Developing countries are particularly impacted by aggressive tax planning because of their heavy reliance on corporate income tax.

<sup>9</sup> United Nations Foundation. What We Do: Post-2015 Development Agenda, <https://goo.gl/O7CXtl>

<sup>10</sup> OECD. OECD and Post-2015 Reflections. Element 11, Paper 2. See <https://goo.gl/XYfJX>

<sup>11</sup> The fundamental limitation of EOIR is that the tax authority requesting the information must have adequate information to make the request and approach the appropriate counterpart jurisdiction which may not always be the case. However, when AEOI is globally implemented, information brought to light by AEOI may give tax authorities the information they need to enable them to make targeted information requests under EOIR.

<sup>12</sup> OECD. 2013. Action Plan on Base Erosion and Profit Shifting. See <https://goo.gl/CqwUal>. The BEPS action plan equips governments with the domestic and international instruments needed to tackle BEPS.

Developing countries face significant resource and capacity challenges<sup>13</sup> arising from both the global adoption of the EOIR and AEOL international tax standards, and the BEPS action plan.

These countries can benefit from the support of international and regional organizations in meeting these challenges.

ADB as an international financial institution is mandated to foster economic growth, cooperation and development of its developing member countries (DMCs). ADB recognizes that it has a role to play in supporting global efforts to combat tax evasion and aggressive forms of tax planning. In response, ADB's Board of Directors approved an update to ADB's Anticorruption Policy (1998, as amended to date) to address tax integrity issues at country and project levels on 13 December 2016.<sup>14</sup> This updated policy will complement ADB's anti-money laundering Policy.<sup>15</sup>

At the country level, ADB's updated policy will support its DMCs to improve their ability to protect themselves against tax evasion and aggressive forms of tax planning. In particular, ADB has committed to support tax integrity initiatives in Asia and the Pacific by increasing Technical Assistance (TA) operations that (i) assist DMCs in promoting their DRM<sup>16</sup> by enhancing their ability to protect themselves against tax evasion and BEPS, (ii) develop the capacity of DMCs to become members of and participate in the work of the



<sup>13</sup> In relation to tax evasion, these challenges include complying with EOIR (against a background of increasing numbers of requests for information and more robust assessment criteria); developing a legal framework and a working platform to meet the confidentiality and data safeguard requirements of AEOL, and developing the capacity and resources to fully utilize the information received under AEOL and to make requests under EOIR. In relation to BEPS, developing countries need expertise and resources to enable them to participate in the BEPS inclusive framework and to consider (i) their priorities for addressing BEPS issues, (ii) the extent to which they should implement BEPS measures, and (iii) whether there are tax issues that are more pressing for them than those set out in the BEPS action plan.

<sup>14</sup> Addressing ADB's response to tax evasion and aggressive forms of tax planning in an update to ADB's Anticorruption Policy does not imply that legal forms of tax planning by multinational corporations constitute illegal activity or corruption.

<sup>15</sup> ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila

<sup>16</sup> This support is in addition to broader ADB initiatives on DRM. This support does not limit ADB from providing support and assistance in other areas of DRM (e.g., improvements to tax policy, efficient tax administration, and procurement and state-owned enterprise reform) under ADB's work on governance and public management.

Global Forum, and (iii) support DMC participation in BEPS initiatives promoted by lead organizations. In this regard, ADB's Sustainable Development and Climate Change Department is implementing a \$1 million TA on Strengthening DMC Tax Policy and Capacity to Mobilize Domestic Resources, while OAI is implementing a \$2 million TA to assist DMCs meet international standards for tax integrity.

At the project level, ADB recognizes that, while there are numerous legitimate reasons for the use of structures involving offshore jurisdictions,<sup>17</sup> these structures may pose higher risks because they have greater potential to obscure beneficial ownership and sources of funds, which may increase the risk that they are used to facilitate corruption, tax evasion, money laundering, financing of terrorism, and other illicit activities. ADB's updated policy addresses these risks by setting out certain Tax Integrity Principles which reflect a combined risk-based<sup>18</sup> and prohibitive approach, and require ADB to adopt new internal procedures for the conduct of tax integrity due diligence for nonsovereign transactions.<sup>19</sup>

ADB recognizes that its role in relation to BEPS is primarily at the country level (since taxation issues are within the sovereignty of its DMCs). However, the Tax Integrity Principles require ADB to obtain reasonable assurance that the nonsovereign projects in which it invests do not involve material related party contracts that inappropriately transfer income to a group company or related persons and entities in an offshore jurisdiction.

Under its updated Anticorruption Policy, ADB will strengthen its understanding on the indicators of tax evasion and BEPS issues that are relevant for ADB's nonsovereign operations by engaging an international tax expert to assess and recommend ways to mitigate ADB's exposure to such issues. Given the rapid developments in the global tax landscape, OAI will report on its tax integrity activities to ADB's Board of Directors in 2018, and every 3 years thereafter. This will ensure that ADB remains in line with international developments in this area.

ADB's updated Anticorruption Policy demonstrates, in a practical and effective manner, ADB's support for enhanced tax transparency and DRM. OAI will continue to monitor, participate in, and respond to global initiatives that emphasize tax integrity and promote ADB's vision of an Asia and Pacific region free of poverty.

Acclaimed investigative journalist and director of the International Consortium of Investigative Journalists (ICIJ), Gerard Ryle was the keynote speaker at ADB's International Anticorruption Day celebrations on 9 December 2016.<sup>20</sup> In his address to ADB staff, he emphasized the importance of eliminating secrecy in offshore jurisdictions to further development initiatives:

***“Poor nations desperately need swift global action against shell companies and other tools of the offshore trade. Because the secrecy that lies at the heart of offshore, lies at the heart of corruption and poverty everywhere.”***

<sup>17</sup> Legitimate reasons for using offshore jurisdictions include tax optimization to eliminate double taxation on income and profits as well as other operational, management, and administrative efficiencies and flexibility, especially where structures involve multiple international investors in numerous jurisdictions.

<sup>18</sup> ADB will assess when heightened tax integrity due diligence is required for a transaction by reference to (among other things) Global Forum country ratings, as well as ratings of other lead organizations.

<sup>19</sup> For example, ADB will not finance a transaction if ADB's client is either established in, or controlled by an entity established in, an intermediate jurisdiction which is classified as noncompliant by the Global Forum for EOI unless (i) it has conducted enhanced tax integrity due diligence to ascertain that the tax integrity risks are low and acceptable to ADB; and (ii) ADB is satisfied that there is a sound business or policy objective for financing the transaction that should take priority over the rationale for not financing.

<sup>20</sup> Ryle led almost 400 journalists from over 100 media outlets across 80 countries in a collaborative investigation which resulted in the Panama Papers. This exposure resulted in public demonstrations and resulted in the resignations of certain national leaders. See <https://panamapapers.icij.org/>

# What does OAI do?

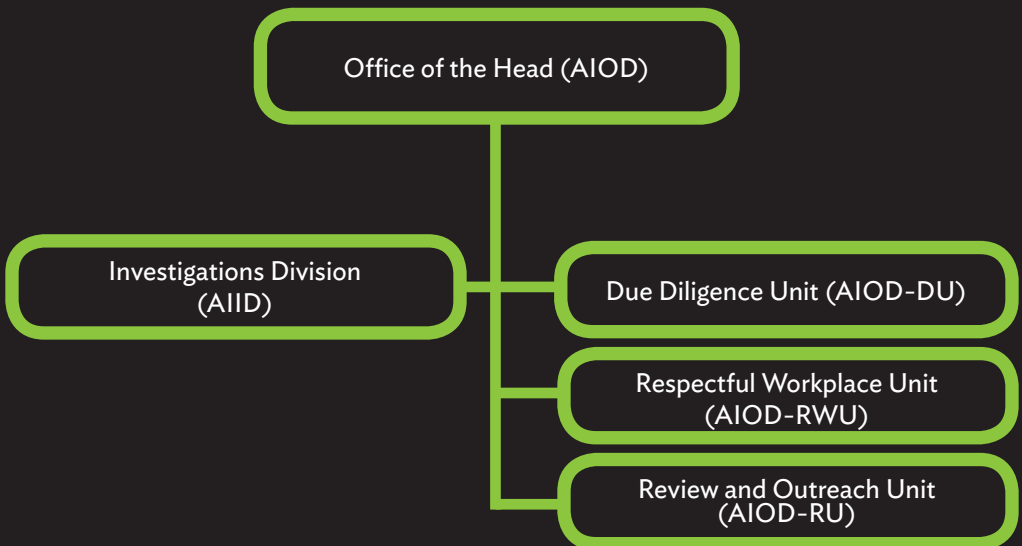
OAI serves as the initial contact point for all allegations of integrity violations as defined by ADB, and conducts independent and objective investigations of the same, pursuant to ADB's Anticorruption Policy.

OAI has evolved from a unit comprising 6 staff (1998) into an independent office (2009) which currently has 24 staff. OAI engages a complement of consultants who provide services in investigations, audit, due diligence, and information technology.

On 27 June 2016, President Nakao approved the restructuring of OAI into two divisions and three units to

- address the increasing roles and responsibilities of the office; and
- ensure that conflicting priorities and interests are avoided through clearly segregated operational teams.

## RESTRUCTURED OAI ORGANIZATIONAL CHART





OAI's mandate is now carried out through

1. the Investigations Division (AIID), which receives and reviews complaints and conducts independent investigations on allegations of integrity violations;
2. the Due Diligence Unit (AIOD-DU) within the Office of the Head (AIOD), which carries out OAI's integrity due diligence functions and handles its anti-money laundering (AML) initiatives; and
3. the Review and Outreach Unit (AIOD-RU) within AIOD, which handles OAI's project procurement-related reviews and capacity development activities.

New functions under OAI's mandate, also approved by President Nakao on 27 June 2016, are to be carried out through the Respectful Workplace Unit (AIOD-RWU), within AIOD. The unit was created to implement ADB's commitment to foster and maintain a collaborative, collegial and mutually supportive work environment in ADB.

While recruitment of RWU staff and underlying policy documents have yet to be finalized as of the end of 2016, substantive work has been done to embed the concept of respect in ongoing staff recruitment and performance evaluation, prepare awareness raising and training materials to be conducted in 2017 and set up the platform and underlying processes to receive and investigate allegations of misconduct that do not involve alleged integrity violations.



"I pledge to be  
conscious of any  
conflict of  
interest and act/  
report  
accordingly."



"I pledge to  
speak out against  
corruption in our  
projects and in  
daily life."

# Ensuring Integrity in ADB Operations

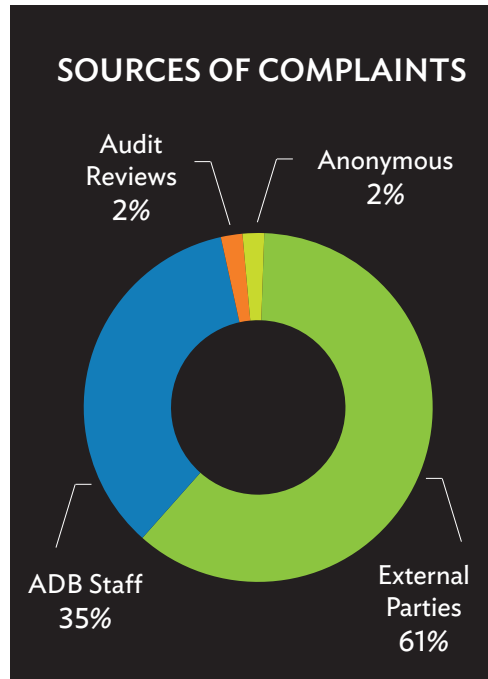
OAI has a clear mandate to ensure integrity across all of ADB's activities and to protect ADB's reputation. OAI meets this mandate through a combination of reactive and proactive approaches.

OAI's investigators ensure that their activities contribute toward enhancing the rigor and integrity of ADB's activities beyond the imposition of sanctions. This approach has an undeniable impact on the integrity of all ADB activities as shown below:

- When imposing sanctions, OAI enforces its Anticorruption Policy.
- When imposing conditions as part of a remedial action, OAI helps ensure that individuals and firms participating in ADB-financed activities operate with integrity.
- By using investigative knowledge as a basis for case studies, OAI's target audience is able to better relate with the adverse consequences of fraud and corruption, and therefore they are better able to apply appropriate anticorruption measures.
- By making process observations and recommendations, OAI transfers knowledge to project officers and creates a multiplier effect to enhance integrity in project implementation.

## Complaints Intake

At the start of 2016, OAI had 211 open complaints from the previous years for assessment. In addition, OAI received 258 new complaints pertaining to allegations of integrity violations and staff misconduct in ADB funded activities.<sup>21</sup> Complaints from ADB staff declined from 131 (46%) in 2015 to 96 (37%) of total 2016 complaints.<sup>22</sup> OAI will continue to raise awareness among staff to ensure that appropriate information is disclosed to OAI as required by ADB's rules. The majority of complaints were received via email.



<sup>21</sup> OAI protects the confidentiality of all the sources of its complaints. In 2016 one complainant requested that his identity be protected to avoid retaliation by the subject of the complaint.

<sup>22</sup> Thirty three of the 131 complaints related to one matter under assessment in 2015.

## FOCUS OF INVESTIGATIONS

Projects

53%

ADB Staff

37%

Others

10%

Complaints are assessed to identify if they are (i) within OAI's mandate, (ii) credible, (iii) verifiable and (iv) material. A total of 153 complaints were closed in 2016 of which 149 complaints were closed for not meeting the assessment criteria while 2 complaints were closed with reprimands. Additionally, 2 complaints were closed and merged with ongoing investigations. As of 31 December 2016, 120 complaints were converted into investigations and 196 complaints remained open and under assessment.

### Investigations

Eighty seven (73%) of the 120 new investigations in 2016 related to fraud. The conversion rate of complaints alleging corruption, coercion and collusion remains low. This is due to the inherent difficulty of

demonstrating, on a more probable than not basis, that corruption, collusion or coercion occurred.

Of the complaints converted, 63 (53%) related to ADB-financed projects, 45 (37%) related to ADB staff, while the remaining 12 cases (10%) pertained to other activities. Forty five (37%) of the 120 investigations opened in 2016 related to ADB staff, which was significantly higher than the 11 (13%) of complaints converted in 2015.<sup>23</sup>

During 2016, OAI closed 74 investigations of which 58 (79%) resulted in remedial action whereas the remaining 16 (21%) cases were not substantiated or were disproved.

<sup>23</sup> The increase in Investigations is not indicative of a rising trend in the number of ADB staff cases as 33 of the investigations related to one matter. Exceptionally, the complaint led to the discovery of 33 separate but similar instances of fraudulent misrepresentation.

## Remedial Actions Taken

In 2016, ADB reported 23 cases to the Integrity Oversight Committee (IOC) which imposed debarments on 45 firms and 35 individuals. Additionally, 53 firms and 5 individuals accepted OAI-proposed debarment in 7 cases while 9 firms and 1 individual were conditionally nondebarred in 4 cases. In recommending and proposing sanctions, OAI has included and emphasized conditions that require the subject firms' and individuals' commitment to review and implement enhanced governance and internal control measures. Additionally 18 firms and 9 individuals were reprimanded and 16 firms and 13 individuals were cautioned.

By the end of 2016, ADB had debarred a cumulative total of 1,261 firms and 787 individuals; of which 270 firms and 113 individuals have since been reinstated, while 991 firms and 674 individuals remain debarred. Of these, 537 firms and 227 individuals are included in ADB's published list.<sup>24</sup> A cumulative total of 116 reprimands (since 1999) were issued to 68 firms and 48 individuals and 299 cautions (since 2006) were issued to 186 firms and 113 individuals. Additionally 15 firms and 8 individuals were conditionally nondebarred.

## Cross-Debarment

Pursuant to the Agreement for Mutual Enforcement of Debarment Decisions (Cross Debarment Agreement),<sup>25</sup> ADB cross-debarred 86 firms and 47 individuals based on notifications received from three participating IFIs. ADB in turn submitted 10 firms and 8 individuals for consideration of cross-debarment by participating IFIs.<sup>26</sup>

## Temporary Suspension

The Integrity Principles and Guidelines (IPG) provides for temporary suspensions to allow effective sanctions of firms and individuals where

- there is sufficient evidence to support a finding of an integrity violation, and
- it is highly likely that the investigation will be concluded within 1 year.<sup>27</sup>

Temporary suspension prevents the awarding of ADB-financed contracts to a firm that, or individual who, is likely to be sanctioned. It is not subject to appeal. Any attempt to participate in ADB-related activity during the temporary suspension period will automatically result in minimum debarment period of 3 years.

In 2016, temporary suspensions were issued to one firm and one individual, bringing the total to 14 firms and 7 individuals who were subjects of temporary suspension since this interim measure was first introduced in 2013.<sup>28</sup>

<sup>24</sup> Publication is mandated by ADB's Integrity Principles and Guidelines (IPG) if the firm or individual is found to have engaged in the second or subsequent integrity violation, or if the integrity violation is sufficiently serious to warrant publication, even if this is a first violation. See <https://goo.gl/Wpr9yx>.

<sup>25</sup> A full explanation of the Cross Debarment Agreement may be found on <http://www.crossdebarment.org>.

<sup>26</sup> ADB submits individuals and firms for cross-debarment if their names are included in ADB's published sanctions list. Those included on ADB's complete list, and are only accessible by ADB staff and those who need to know, are not submitted for cross debarment pursuant to the Cross Debarment Agreement.

<sup>27</sup> ADB, 2015. *Integrity Principles and Guidelines*, Manila.

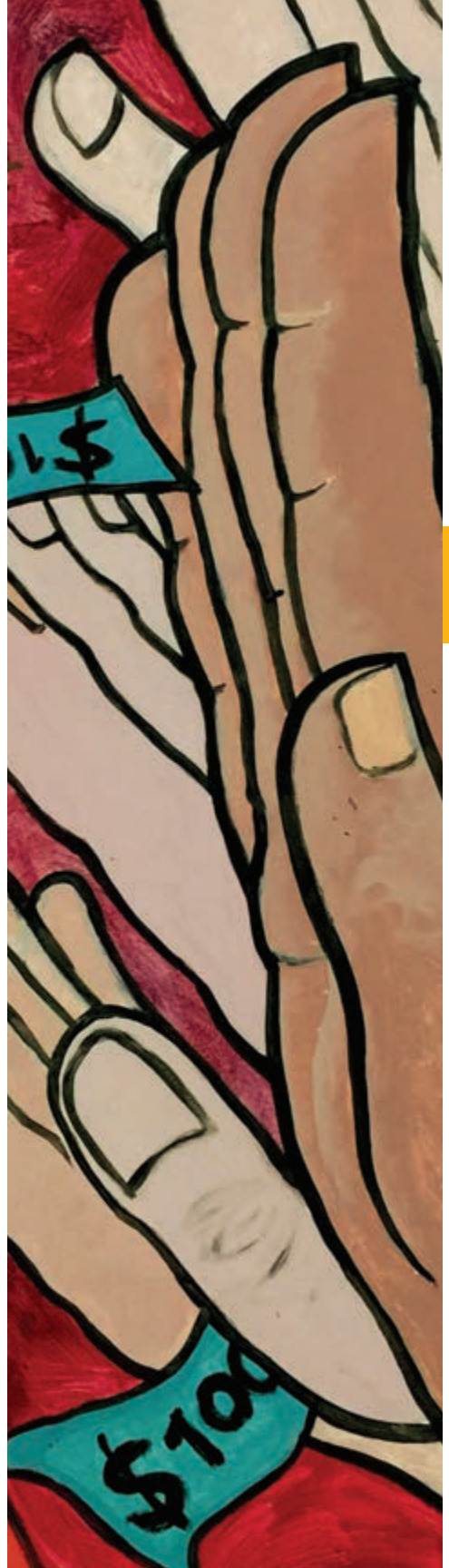
<sup>28</sup> The measure of temporary suspension was included in the IPG in 2012; as such, the first time it was utilized was in 2013.

## Enhancing Development Effectiveness

OAI utilizes its investigative findings to equip staff, project officers of the DMCs, partner firms and individuals in the development community to better combat integrity violations by

- advising the relevant ADB department on potential preventive measures for integrity violations which could have been prevented;
- sharing information about OAI red flags pertaining to potential conflicts of interest or lack of transparency along with suitable prevention tools to the relevant office; and
- encouraging / requiring subjects to improve their own governance and integrity framework/processes through conditional nondebarments, debarments with conditions, and the reinstatement processes.

In 2016, as a result of investigations involving staff, OAI collaborated with various departments to leverage on investigative findings to improve ADB internal controls. These include updates to the applicable guidelines, processes, and associated documents.





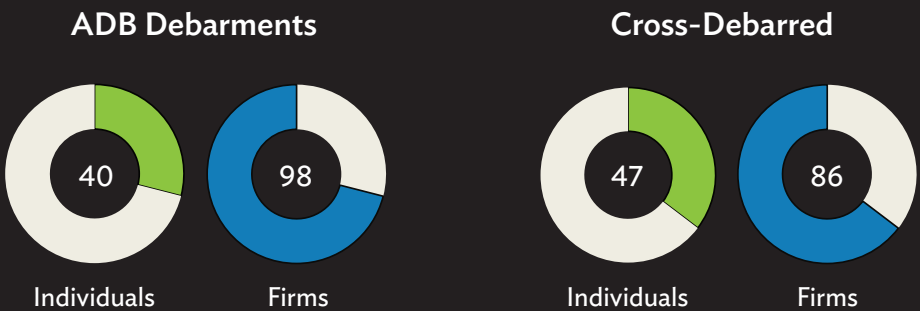


# Appeals

An entity sanctioned by the IOC is entitled to submit an appeal against the sanction within 90 days from the receipt of the sanction notice. The Sanction Appeals Committee will consider appeals that include new information to the extent that such information:

- was not available or known, or could not reasonably have been known, to the party at the time that explanations were sought from it by OAI; and
- is relevant to the case and may have been relevant to the decision to impose sanctions.<sup>29</sup>

## SANCTIONS



OAI received six appeals in 2016, involving three firms and six individuals. Five appeals from 2016 and two appeals pending from 2015 were denied because they did not meet the requirements for an appeal to be considered by the Sanction Appeals Committee as defined in paragraph 98 of the IPG while one appeal was under review.

## Investigations Involving ADB staff

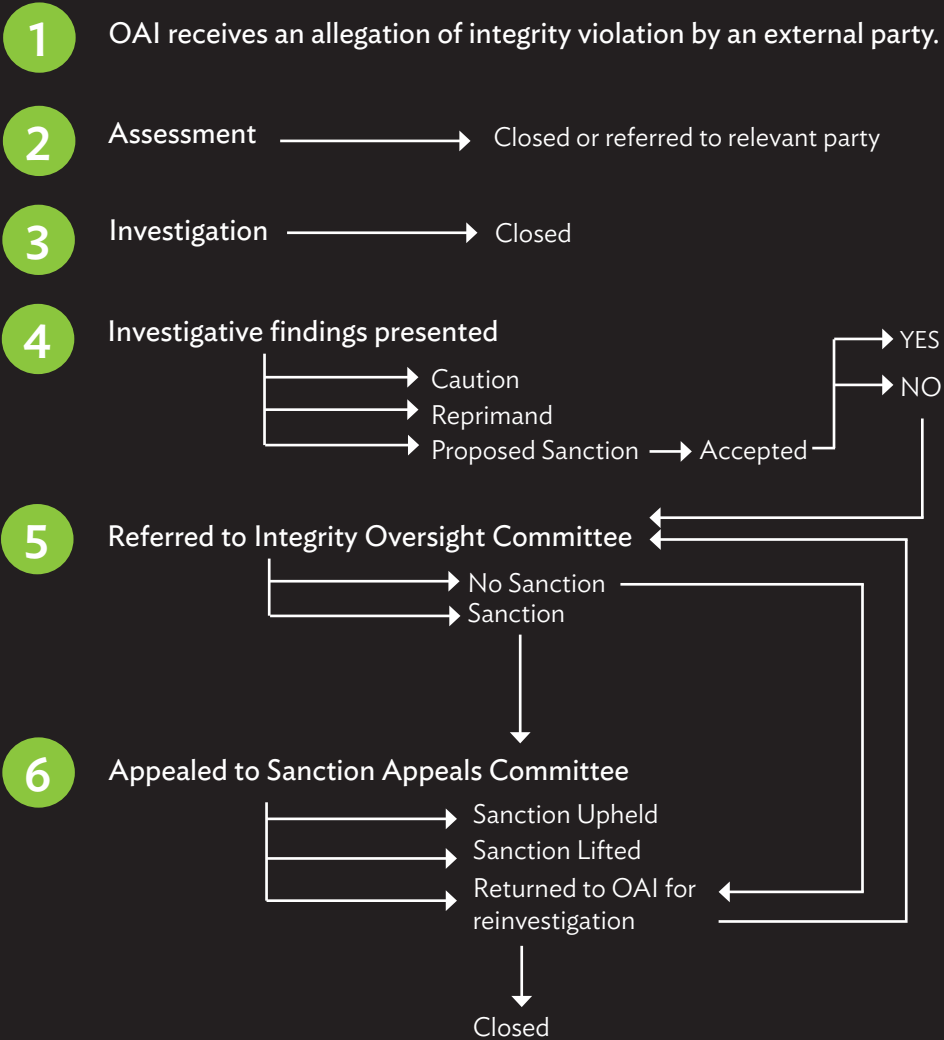
In 2016, OAI completed 33 investigations where ADB staff and former staff were found to have engaged in integrity violations. Findings were referred to BPMSD to initiate disciplinary proceedings, which included dismissals and suspensions.<sup>30</sup>

OAI closed 26 complaints against ADB staff with no further action because the allegations of misconduct or integrity violations did not meet the complaint assessment criteria. Additionally one complaint was closed with a reprimand and another complaint was merged with an ongoing investigation.

OAI engaged an independent expert through a reputable accounting firm to review OAI's investigative process for investigations which involved multiple staff and former staff who engaged in integrity violations to obtain benefits for which they were ineligible. The independent expert confirmed that OAI's investigations demonstrated investigative rigor and incorporated required due process.

<sup>29</sup> ADB. 2015. *Integrity Principles and Guidelines*, Manila. Paragraph 98.  
<sup>30</sup> More information about the investigations involving ADB staff is available on page 45 of this report.

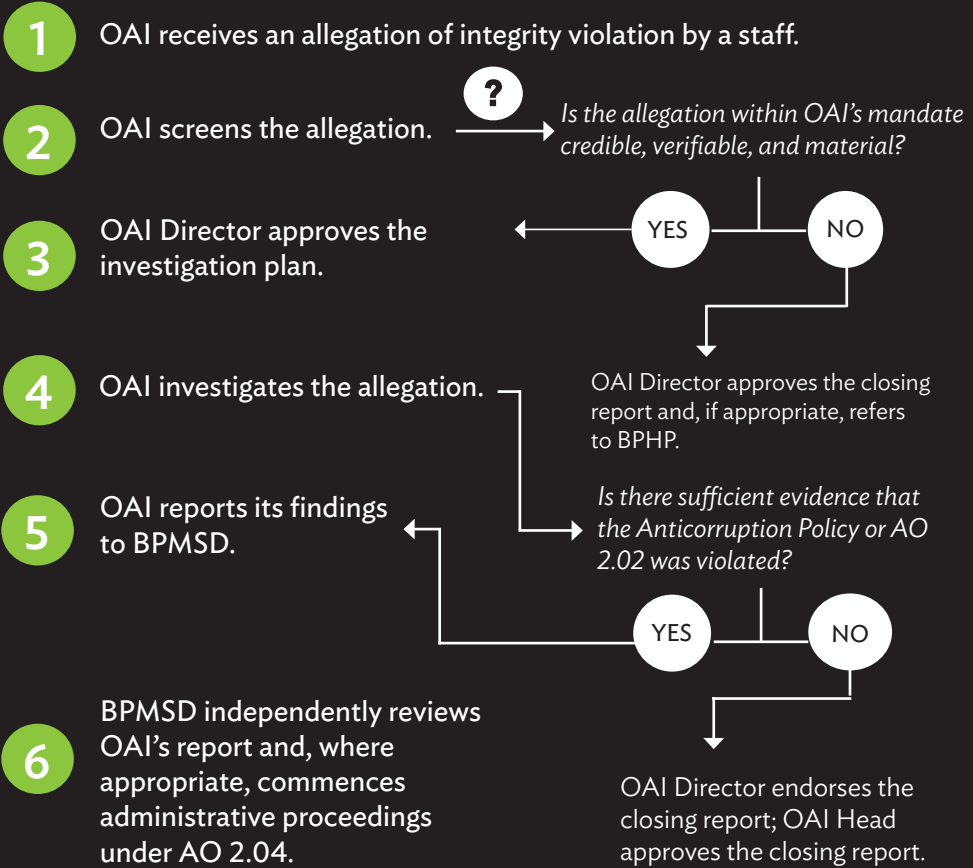
# PROCESS OF EXTERNAL PARTY INVESTIGATION



Notes: The flowchart is not intended to, and does not replace, modify, supersede, or amend ADB's Integrity Principles and Guidelines (2015). Integrity violations that OAI may investigate include corrupt practice, fraudulent practice, coercive practice, collusive practice, abuse, conflict of interest, or obstructive practice.

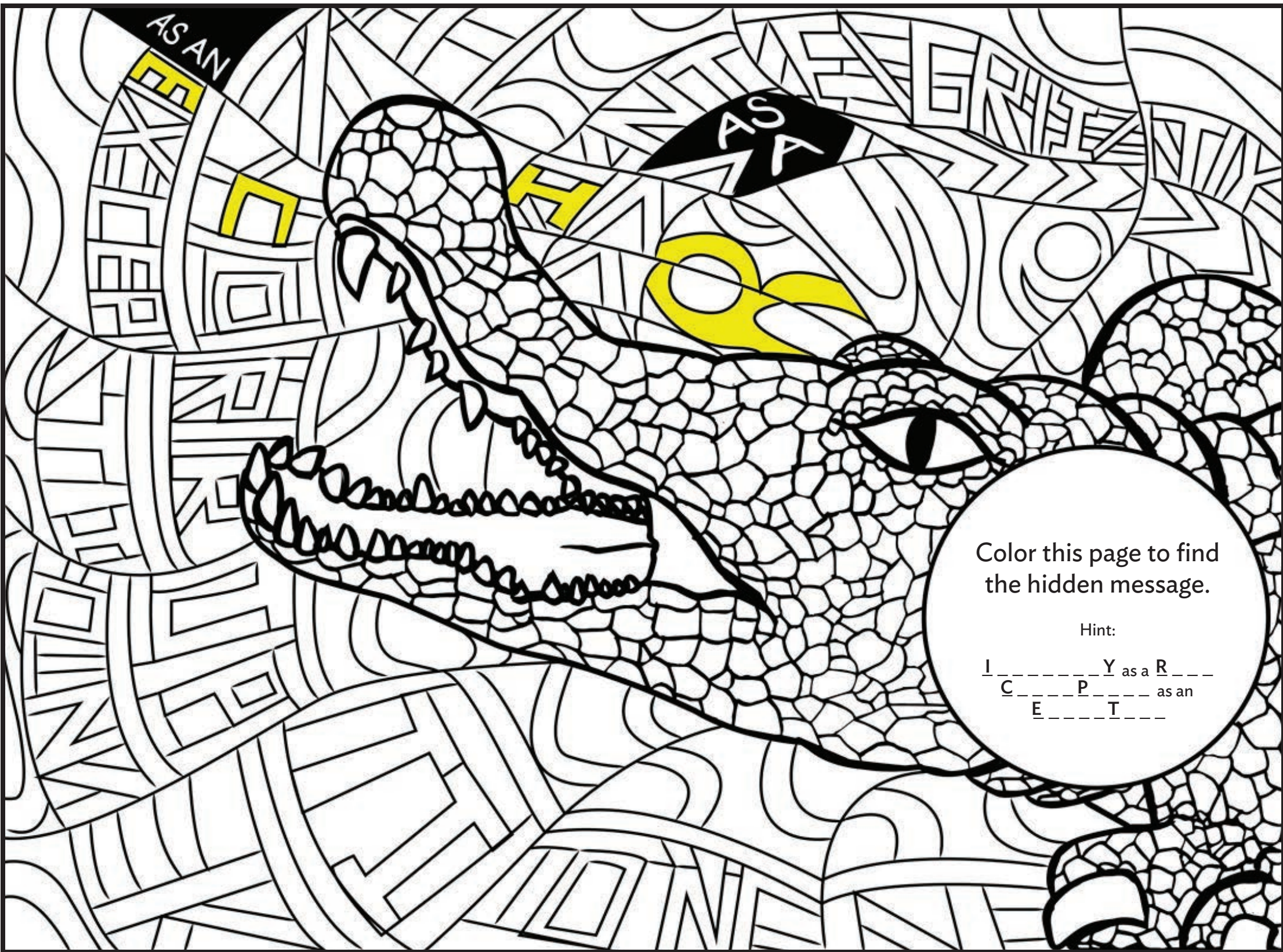
At any time during the investigation, OAI may present to the IOC a request for a temporary suspension of the party (see paras. 72–78 of the 2015 Integrity Principles and Guidelines).

# PROCESS OF STAFF INVESTIGATION



ADB = Asian Development Bank; AO = Administrative Order; BPHP = Human Resources Business Partners Division; BPMSD = Budget, Personnel and Management Systems Department; OAI = Office of Anticorruption and Integrity.

Notes: The flowchart is not intended to, and does not replace, modify, supersede, or amend ADB's Integrity Principles and Guidelines (2015). Misconduct by staff members that OAI may investigate includes violation of ADB's Anticorruption Policy (including fraudulent practices, corrupt practices, or conflicts of interest) or abuse (theft, waste, or improper use of ADB assets, either committed intentionally or through reckless disregard).



Color this page to find  
the hidden message.

Hint:

I \_\_\_\_\_ Y as a R \_\_\_\_\_  
C \_\_\_\_\_ P \_\_\_\_\_ as an  
E \_\_\_\_\_ T \_\_\_\_\_

"I pledge to  
speak out against  
corruption in our  
projects and in  
daily life."







"I pledge to fight  
for transparency  
and have the confidence  
to fight corruption."

# Maximizing Development Impact through Proactive Reviews

OAI conducts proactive reviews, also referred to as project procurement-related reviews (PPRRs), on active and ongoing projects to timely identify and promptly address potential vulnerabilities, particularly integrity risks. Through these proactive reviews, lessons are learned and improvement opportunities are explored to make the procurement process more robust, the financial management system more reliable, and project assets are more efficiently designed, maintained, and utilized to achieve project objectives.

In 2016, OAI carried out seven PPRRs, compared to six in 2015. These PPRRs related to projects valued at approximately \$1.88 billion. In total, 295 bid submissions/expressions of interest valued at approximately \$620 million, 268 withdrawal applications and 60 contracts were reviewed under these seven PPRRs.

OAI issued five PPRR reports which included four reports for PPRRs conducted in 2015 and one report for a PPRR conducted in 2016. Additionally, two draft reports for PPRRs performed in 2016 have been circulated to the Executing Agency and the Regional Departments for their comments.

PPRRs ensure that any instances of noncompliance<sup>31</sup> are immediately and effectively dealt with, identify the root cause of a finding to come up with a recommendation that targets the underlying issue, identify instances

of misuse of project funds at an early stage to maximize the recovery of any misappropriations and ensure that project assets meet the intended project outcomes.

Examples of PPRR findings are as follows:

1. A bidder that did not meet work experience criteria in the bid was awarded a civil works contract. As a result, the regional department intensified its project oversight. The affected output was subsequently satisfactorily completed and handed over to the beneficiary agency.
2. OAI noted errors in the bid committee's evaluation of the bidders' financial capacity. In response, the regional department used technical assistance funds to conduct procurement training for the executing and implementing agency project officers. The regional department will also include the bid evaluation committee members in its 2017 training programs.
3. In a review of a road project, the executing agency paid a consultant despite inadequate supporting documents. OAI strongly recommended that the regional department monitor subsequent payment requests from the consultant to ensure these were adequately supported, and recover funds that had been released without adequate substantiation.<sup>32</sup>

<sup>31</sup> PPRR's assess compliance with the Loan/Grant Agreement, ADB Procurement Guidelines, Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers, Loan Disbursement Handbook, Project Administration Instructions among others.

<sup>32</sup> As a standard procedure, OAI will follow up the implementation status of this recommendation in 2017.

## Collaboration on PPRRs with Development Partners

In 2016, OAI conducted the fieldwork for the second phase of the PPRR of a road project in Cambodia with representatives from the Nordic Development Fund (NDF) who are the cofinanciers of the project. This joint proactive review facilitated knowledge exchange and experience sharing between NDF and OAI. NDF is currently assessing how they can use the knowledge gained from their participation in the PPRR to set up similar review structures for its projects.

## Integrity risk management

OAI conducts integrity risk management reviews of preapproval project documents<sup>33</sup> to be submitted to the ADB Board of Directors, upon the request of sovereign operations departments. The reviews focus on the identification and proposed management of project integrity risks (i.e., fraud and corruption risks).

OAI provides feedback and guidance on mitigation measures, thus ensuring that adequate preventive measures are programmed into the project prior to implementation. OAI provided comments and guidance for integrity risk management reviews for 37 preapproval project documents across 33 projects. Twenty seven of the 33 projects reviewed were from the Pacific Department, four projects were from the Central and West Asia Department and one project each from the Southeast Asia Department and the South Asia Department.

## Other OAI Reviews

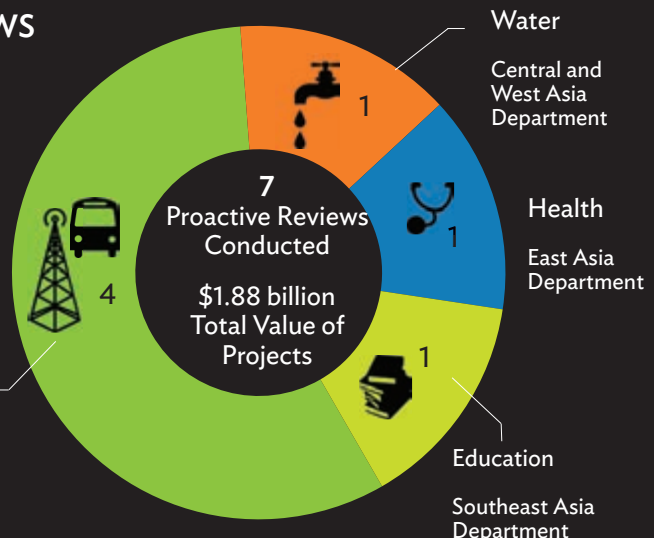
Strategy, Policy and Review Department requested OAI for a review of its country performance assessments, to enhance the rigor and quality of such assessments for ADB's country performance-based allocation system. OAI reviewed and provided feedback on Transparency, Accountability and Corruption in Public Sector criteria submitted by country teams for 27 DMCs.

### PROACTIVE REVIEWS

-  7 Reports Issued
-  37 Integrity risk management reviews in preapproval project documents

Transport and Information and Communication Technology

Southeast Asia Department: 1  
South Asia Department: 1  
Pacific Department: 2



<sup>33</sup> These include concept papers, Report and Recommendation of the President to the Board of Directors (that include the risk assessment and management plans).



## **Anticorruption Murals** by A.G. Saño

The murals created by A.G. Saño depict corruption and its antithesis. He presents the issue as a beastly crocodile ready to devour anyone in its path. At the bottom is a raging and angry white elephant on which shady characters ride to deliver money to willing or unwilling victims or conspirators. Both beasts are confronted by hands (that are bigger than them) of different shades to symbolize the strength and value of the community. The hands also represent people of all colors who refuse and fight corruption in all forms, shapes, and sizes.

A.G. Saño is a world-renowned Filipino artist who has painted more than 500 murals in 8 countries. He is also a known environmentalist who uses art to advance his message of conservation.





# Assessing and Mitigating Integrity and Reputational Risks

In 2016, OAI received 300 integrity due diligence (IDD) advisory and review requests that covered 644 entities. This was an 86% increase in the number of entities reviewed from 2015. As a result of these reviews, OAI assisted the project teams to ensure that any significant integrity and tax related risks of the risks disclosed to ADB's Board of Directors were addressed, and mitigating factors were adequately explained.

Fifty two percent of the total entities reviewed were identified by the Private Sector Operations Department, while 25% were for the purposes of the Annual Meeting.<sup>34</sup> As in 2015, the remainder came from the sovereign operations departments in relation to financial intermediation loans and from the Controller's Department.

In 2016, OAI received a total of 39 IDD advisory and review requests covering 63 entities from the sovereign operations departments, which was an increase of 62% from the 39 entities reviewed in 2015.

The majority 62% of the 63 entities reviewed were from the Central and West

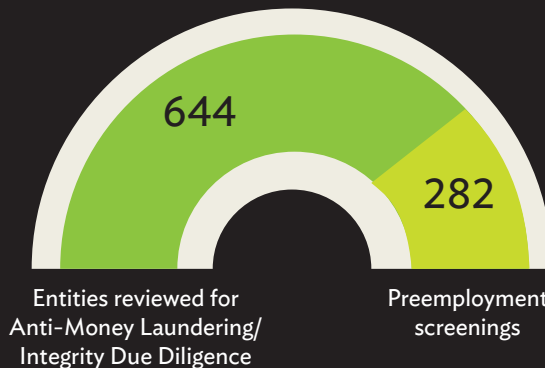
Asia Department. This increase in the IDD requests from the sovereign operations departments resulted from a heightened awareness on the implementation of the staff guidelines for Integrity Due Diligence for Sovereign Operations and Cofinancing issued in October 2015 and IDD trainings conducted during the first quarter of 2016.

In 2017 OAI will conduct a review of the IDD function to identify where nonsovereign projects are most vulnerable to integrity and reputational risks and to establish where resources will be best utilized in conducting IDD.

## Staff Screening

OAI supports BPMSD by conducting preemployment and related screening on external candidates for ADB staff positions. In 2016, a total of 282 preemployment checks were conducted—a decrease of 11% from the previous year. OAI also provided due diligence information and integrity opinions with respect to staff under consideration for administrative action (promotion, separation, etc.) as requested by BPMSD.

### ADVISORY



<sup>34</sup> To protect ADB's reputation OAI conducts due diligence on third parties, including sponsors, vendors and speakers.



# Building a Community of Anticorruption Champions

## Internal Communication and Outreach

OAI continued to support the development of ADB staff's technical and behavioral skills. Responding to participant feedback, OAI conducted interactive training that included actual case studies and the practical application of due diligence and other tools.

As part of BPMSD's in-house training program, OAI conducted 19 training sessions for 431 participants on:

1. IDD for operations staff;
2. PPRR checklists for RM staff;
3. Financial Management Module for financial management staff;
4. Induction Programs for new ADB staff;
5. Fraud and corruption awareness in the Project Design and Management course for project officers; and
6. Respect in the Workplace session for Resident Mission country directors.

In addition, all new, or returning, ADB staff are required to complete OAI's Anticorruption and Integrity online modules.

## External Communication and Outreach

Cumulative lessons learned through OAI's investigative, PPRR, and IDD activities were shared with external audiences. In 2016, upon request, OAI delivered customized training for ADB's Credit Guarantee and Investment Facility<sup>35</sup>, NDF, Nordic Environment Finance Corporation, and Nordic Investment Bank. OAI presented its approach to challenges in influencing culture to institute change in the anticorruption fight at the Philippine Institute of Internal Auditors Convention, attended by 260 internal auditors. Furthermore, OAI shared its systems, processes, and procedures with the Asian Infrastructure Investment Bank and the latest developments on OAI's tax integrity and AML activities with Nordic Investment Bank.

OAI conducted nine customized training on integrity for 152 participants, including government officials, resident mission staff, private sector representatives, and development partner representatives. The training sought to enhance participants' skills in identifying red flags in project implementation by conducting due diligence and using relevant tools, which will provide further reasonable assurance that procurement decisions are based on accurate and complete information provided by potential contractors, suppliers, and consultants.

<sup>35</sup> A trust fund of ADB established as part of the Asian Bond Markets Initiative.



## Other Outreach Platforms

OAI uses different online platforms for sharing its anticorruption work and assisting ADB staff and consultants in preventing and detecting integrity violations. OAI's intranet page contains regular updates on sanctions and a comprehensive list of resources including checklists, policies, and reports. OAI issued 156 announcements through ADB's internal news bulletin, ADB Today. These announcements publicize OAI events, report on its activities, provide notification regarding debarments imposed, and disseminate integrity-related advice.

OAI continued to provide updated information on its anticorruption work through its website ([www.adb.org/integrity](http://www.adb.org/integrity)) and circulated the Anticorruption and Integrity e-Bulletin quarterly.<sup>36</sup> OAI also redesigned ADB's Anticorruption Sanctions List website ([www.sanctions.adb.org](http://www.sanctions.adb.org)) to improve user access and navigation.

In 2016, OAI established and used social media platforms through Facebook ([www.facebook.com/anticorruptionandintegrity](http://www.facebook.com/anticorruptionandintegrity)), Twitter ([twitter.com/adb\\_OAI](http://twitter.com/adb_OAI)), and YouTube ([www.goo.gl/w69Xhn](http://www.goo.gl/w69Xhn)) to share information and promote collective action to fight corruption.

## iACT to Fight Corruption!

ADB's iACT campaign continued to emphasize the importance of individual responsibility for and commitment to the anticorruption fight. Seven iACT learning events were held throughout the year, culminating in the International Anticorruption Day celebrations on 9 December 2016. Guest speakers sourced from the public sector, a religious

organization, civil society, and ADB addressed more than 687 attendees. Three iACT Exhibits were displayed around ADB headquarters.

- ADB Resident Missions Pledge to Fight Corruption, where 480 staff from 27 resident missions—ADB's front liners—wrote a pledge to fight corruption
- Anticorruption Champions Posters, where the experiences, challenges, and successes expressed in the words of renowned anticorruption champions from all over Asia and shared with ADB staff in previous iACT events are featured to inspire ADB staff.
- Anticorruption Murals —created by Filipino artist and social activist A.G. Saño— depict corruption and its antithesis. Saño presents the issue of corruption as beasts confronted by hands that symbolize the strength and value of the community who fight corruption in all its forms. These murals will be displayed at various locations at ADB headquarters and during iACT events throughout 2017 to provide constant reminders to staff of their commitment to fight corruption.

156 Anticorruption  
Advisories Published

87\*  
Anticorruption  
seminars and  
workshops

2,481\*  
Participants

\*Includes external and internal seminars/  
workshops

<sup>36</sup> (1) March 2016 ([www.goo.gl/hOsmLv](http://www.goo.gl/hOsmLv)); (2) June 2016 ([www.goo.gl/MHeVze](http://www.goo.gl/MHeVze)); (3) October 2016 ([www.goo.gl/khLWai](http://www.goo.gl/khLWai)); and (4) December 2016 ([www.goo.gl/ddNEvx](http://www.goo.gl/ddNEvx)).



ADB's annual celebration of International Anticorruption Day on 9 December was led by ADB President Takehiko Nakao. In his welcome remarks, President Nakao<sup>37</sup> said:

*“Colleagues, we have set the foundations for good governance and anticorruption in our operations, and we have been working hard on fulfilling their objectives. I want you to remember that our policies on governance and anticorruption can only be effective if each of us is wholeheartedly committed to them.”*

President Nakao was joined at the event by keynote speaker Gerard Ryle—the year’s anticorruption champion, prominent investigative journalist and director of the International Consortium of Investigative Journalists (ICIJ). In his address to ADB staff, Ryle shared ICIJ’s journey and discussed the importance to development of eliminating secrecy in the offshore world.

<sup>37</sup> President Nakao’s full speech may be accessed at <https://goo.gl/rqC9eh>.

## REGIONAL TECHNICAL ASSISTANCE PROJECTS

### **RETA 8176: Prevention and Detection of Fraud and Corruption**

- 3 Forensic Workshops in Bhutan, Viet Nam, and Malaysia
- 102 representatives from supreme audit institutions and anticorruption commissions across 12 member countries

### **RETA 8719: Developing AML/CFT Approaches, Methodologies, and Controls for Nonbanking Financial Institutions**

- 2 workshops in Bhutan and Viet Nam on Financial Action Task Force recommendations and AML/ Combating the Financing of Terrorism (CFT) country frameworks
- 72 participants

### **RETA 8609: Enhancing Integrity and Anticorruption Awareness in Asian Development Bank Projects**

- To enhance DMC project officers' skills in the prevention and detection of fraud and corruption
- 28 workshops in seven countries
- 708 participants

### **RETA 8873: Understanding and Arresting Corruption in ADB-financed activities**

- Developing tools to enhance antifraud and anticorruption measures of government agencies and ADB regional departments
- Developing a Heat Map to provide categorical corruption analytics on ADB projects and identify associated integrity risks

### **CDTA 0023: Developing AML/CFT Approaches, Methodologies, and Controls**

- Processed a \$2 million project to improve the implementation of AML/CFT regulatory measures and strengthen the capacity of domestic banks and nonbanking financial institutions to comply with the AML/CFT requirements of the Financial Action Task Force
- For implementation from 2017 to 2021

"We pledge to exercise thorough judgment and carefulness in preparing and implementing ADB-funded projects."



# Advancing Anticorruption through Collaboration

In line with ADB's emphasis on stakeholder collaboration, OAI maintained its dialogue with partner institutions on a range of issues. In particular, OAI engaged in intensive consultation with IFIs to benchmark policies of offshore financial centers and tax integrity.

Similarly, tax integrity was extensively discussed during the Private Sector Integrity Conference hosted by the Caribbean Development Bank and the European Development Bank in Paris, France in February 2016. These and complementary collaborations with other stakeholders enabled ADB to advance its work on tax integrity, culminating in the update of its Anticorruption Policy to expand OAI's mandate to include tax integrity. OAI recognizes the cooperation and collaboration of staff from the European Bank for Reconstruction and Development, European Investment Bank, European Investment Fund, Global Forum, Inter-American Development Bank, International Finance Corporation, and Organisation for Economic Co-operation and Development.

In 2016, the Heads of Integrity of MDBs continued work on harmonizing various investigative definitions; it is anticipated that part of this work may be completed in 2017. The MDBs also discussed options with respect to joint investigations of cofinanced projects.

To advance global anticorruption efforts, the Heads of Integrity participated as panelists at the 17th Conference of International Investigators in Austria in October 2016 and at the 17th International Anti-Corruption Conference (IACC) in Panama in December 2016.<sup>38</sup> The IACC panel presentation elicited strong consensus among attendees that integrity units should continue to adapt to new challenges in the field of corruption.<sup>39</sup> The discussion indicated support for integrity units to go beyond enforcement and preventative activities.

The 2016 IACC Final Declaration presented at the closing ceremony recognized the important role MDBs' can play in curbing corruption and encouraged MDBs to address the demand side of corruption. In particular, it stressed the need for governments to leverage on the MDBs' robust sanction system:

***Governments should partner with international financial institutions by using the [MDBs'] robust sanction system to ensure that public servants who engage in corruption do not go free.***

<sup>38</sup> Attended by the Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, and the World Bank.

<sup>39</sup> Enabling Integrity Through Incentives: Innovation and International Cooperation—MDBs perspectives on Successes and Challenges in the Global Fight against Corruption.

"I pledge to inform  
OAI of any possible  
integrity violations."



# Report integrity violations to OAI

If you have information about possible violations to ADB's Anticorruption Policy, contact **the Office of Anticorruption and Integrity** at:



+63 2 632 5004



+ 63 2 636 2152



[integrity@adb.org](mailto:integrity@adb.org)



[www.adb.org/integrity](http://www.adb.org/integrity)



6 ADB Avenue, Mandaluyong City  
1550, Metro Manila, Philippines



[facebook.com/  
anticorruptionandintegrity](https://facebook.com/anticorruptionandintegrity)





# Sample Investigation Cases in 2016

In 2016, OAI completed 33 cases involving ADB staff. A sample of significant cases is summarized below.

OAI's Investigative Findings	Case Resolution
<b>Fraud and Misconduct</b>	
<p>Multiple ADB staff and former staff misrepresented and/or used fraudulent documents to obtain benefits for which they were ineligible.</p> <p>The ADB staff failed to observe the general principles of conduct as stated in AO 2.02, para 4.3 (ii).</p>	<p>OAI submitted its investigation reports to BPMSD for each individual implicated.</p> <p>BPMSD has so far dismissed four staff and demoted four others without reduction in pay. Demoted staff are permanently ineligible for the relevant benefits.</p>
<b>Misconduct</b>	
<p>An ADB staff engaged in outside work without declaring this to, or obtaining authorization from, ADB. He also abused ADB resources, failed to maintain highest ethical standards and therefore engaged in misconduct.</p>	<p>BPMSD dismissed the staff.</p>
<p>An ADB staff who was hired in 2002 held external board positions from 2003 to 2015 that he failed to declare and seek prior approval from ADB.</p>	<p>BPMSD demoted the staff with reduction in pay.</p>
<b>Conflict of Interest</b>	
<p>Staff was conflicted when he did not recuse himself from official duties and responsibilities which involved his prospective employer, and failed to inform ADB management about the prospective employment.</p>	<p>BPMSD issued a written censure.</p>

*Note: He/his/him is used for convenience and is not gender specific.*

In 2016, 34 cases led to sanctions. A sample of significant cases is summarized below.

OAI's Investigative Findings	Case Resolution
<b>Corruption</b>	
The individual received kickbacks linked to the award of ADB contracts while providing contractual services to ADB through a firm. The firm was accountable for the individual's actions.	The IOC sanctioned the individual for 7 years and the firm for 4 years with conditional reinstatement.
A former staff received kickbacks while he was staff, and continued to do so after his separation from ADB, when he rendered services through a third-party service provider. The individual obstructed the investigation by advising other parties to deny knowledge of transactions and to delete information from their mobile phones.	The IOC sanctioned the individual for an indefinite period, and required that the individual's name be published.
<b>Fraud</b>	
The individual and his firm misrepresented that they were connected to ADB by altering official ADB correspondence in an attempt to scam private investors on supposed ADB-financed projects.	The IOC sanctioned the individual, the firm, and five other associated firms for 6 years.
The individual and his firm submitted a fraudulent quotation on the letter head of an existing firm which had not bid for the contract.	The IOC sanctioned the individual, the firm, and five other associated firms for 6 years.
A firm and its sole proprietor misrepresented (i) the firm's association with a more established firm; and (ii) that its products were ISO-certified.	The IOC sanctioned the proprietor and the firm for 5 years.

OAI's Investigative Findings	Case Resolution
<b>Collusion</b>	
<p>Two affiliated firms engaged in collusive practices and were in a conflict of interest situation when they submitted bids for the same contract under an ADB-financed project, to increase their chances of winning the contract. The two firms were established to bid for contracts, but were otherwise inactive. If one of the firms were awarded the contract, a third related firm would have implemented the contract.</p>	<p>The IOC sanctioned the three firms and the two individuals for 2 years.</p>
<p>Five firms and their representatives colluded to misrepresent the true provider of contract services, to improperly benefit from the project. The contracts were subcontracted without notifying the executing agency and were implemented for a significantly lower cost than the contracted amount.</p>	<p>The IOC sanctioned the five firms and four individuals for 3 to 5 years.</p>
<b>Conflict of Interest</b>	
<p>The winning firm, which was owned by an officer of the implementing agency, did not disclose that it had a conflict of interest during the procurement. Competing firms and their owners colluded to defraud ADB by submitting false bids to favor the winning bidder.</p>	<p>The IOC sanctioned the two firms and three individuals for 5 to 7 years.</p>
<b>Sanctions Violation</b>	
<p>The firm and its authorized representative submitted bids for two different packages under an ADB-financed project, while the firm remained sanctioned for engagement in fraudulent practice.</p>	<p>The IOC sanctioned the firm and its authorized representative for a further 3 years, with publication on ADB's website.</p>

"I pledge to keep in mind the four principles of fairness, economy, efficiency, and transparency in dealing with procurement."





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