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Anti-Corruption Efforts at the ADB

Introduction

Mr. Chairman, Ranking Member Biden, Members of the Committee, I thank you for your invitation to come and speak with the Committee today on a subject that is fundamental to poverty reduction in Asia and is at the very core of sustainable development.

The goal of my office has been, and continues to be, to make the Asian Development Bank a more results-driven institution. This means not only rewarding countries for good performance, but ensuring that the ADB makes the most efficient possible use of its resources. This means full transparency and protecting the shareholders of this institution and the investments they have made in it. Corruption is illegal, unethical and inefficient. In an environment of scarcity, every dollar lost to waste, fraud and misgovernance is a dollar not invested in health care, clean water, education, critical infrastructure and other essential services. This is a human tragedy for the intended recipients in developing countries and a waste of taxpayer money in shareholder countries.

Since becoming U.S. Executive Director of the ADB in 2002, I have made internal governance reform and fighting corruption top priorities. The committee will recall my confirmation testimony here in June 2002 in which, when asked by Senator Sarbanes even before I relocated to Manila, I stressed the importance of anticorruption efforts at the ADB. I have also enjoyed my frequent consultations with Congressional staff on anticorruption issues and hope to continue this dialogue for as long as I am the U.S. Executive Director. A senior staffer from the Senate Foreign Relations Committee, Jay Branegan, visited my office in August 2004, and I would be happy to extend an invitation to others that might wish to visit the Bank in Manila.

The ADB has made significant progress in opening its operations to outside scrutiny, strengthening its anti-corruption capability, and promoting good governance in borrowing countries. But these actions, while positive, are only first steps. My office has been and will continue to be at the forefront of advancing these reforms. At the institutional level, we expect that the ADB's Integrity Division (formerly Anticorruption Unit) will become even more proactive in addressing allegations of fraud and abuse. The Bank's new public communications policy is a step in the right direction, and we will continue to press for even greater transparency. At the project level, we would like anticorruption safeguards built into more project documents, stricter sanctions for those who violate them, more "spot" procurement audits, and a greater willingness to cancel loans where corruption is detected. And at the country level, we want to see lending for good governance expanded.

Let me be more specific.

Institutional Efforts

Over the last year, the Bank has made significant strides toward becoming more open and accountable at the institutional level.

As a result of U.S. encouragement, the Audit Committee of the Board of Directors is now a more effective instrument for oversight. The committee meets more frequently – once a month as opposed to three times per year – and, when appropriate, without the participation of Bank management. It reviews audit reports from the Bank’s external auditors and monitors management’s implementation of their recommendations. The U.S. has led efforts to make the Office of Auditor General a more active agent for improving internal governance. Recently, the Office began a review of internal purchasing rules and it has sponsored regular corruption and fraud awareness workshops for incoming staff at headquarters and for staff at selected resident missions, which in 2004 included Bangladesh, Pakistan and Uzbekistan.

To combat corruption and thwart possible misuse of resources, the ADB recently elevated the status of its Anticorruption Unit to an independent Integrity Division within the Auditor General’s Office. The Integrity Division serves as the initial point of contact for allegations of fraud and corruption in ADB-financed projects or ADB staff. It also conducts training seminars in forensic accounting and other investigative techniques to ensure ADB-funded activities and staff adhere to the highest standards of ethical conduct and recently launched a series of mandatory code of ethics seminars for all staff. The U.S. is encouraging the Integrity Division to increase the number and scope of its procurement audits and corruption investigations and is working closely with management to ensure that there are adequate resources for the Integrity Division to carry out its expanding responsibilities. As a result of U.S. advocacy, the 2005 budget for the Auditor General’s Office was increased 19 percent. The ADB was the first MDB to post on its website an annual report summarizing corruption investigations.

The Bank recently decided to debar corrupt firms from all ADB-sponsored activities, not just procurement, and we will press for further enhancements in the months ahead. The ADB should also move toward publishing a list of debarred firms. We will continue to urge the ADB to work with other MDBs on a uniform set of “state of the art” standards encompassing ethics, procurement and anticorruption.

Progress is also being made on creating an institutional culture that promotes transparency. As a result of strong U.S. advocacy, the ADB has drafted a new public communications policy that substantially increases the presumption of disclosure and includes several of the objectives from the transparency language in Section 581 of Division D of the FY2004 Consolidated Appropriations Act, which this Committee helped to craft. Among other things, the ADB’s new policy will make public the minutes of Board discussions and summaries of Board discussions of policy and strategy papers. But it also goes much further. The public will also have access to a rolling, 3-week schedule of Board of Directors’ meetings, country performance ratings, and a full version of the ADB budget.

Those affected by ADB policies should have a strong voice in the policy process. In this light, we are pleased the Bank has taken significant steps to become more responsive to the concerns of civil society. In 2004, the ADB established a new inspection mechanism to address the concerns of persons affected by ADB projects. The new mechanism consists of a Special Project Facilitator who will focus on informal problem-solving and a Compliance Review Panel, which will focus on investigating alleged violations of the ADB's operational policies and procedures. The Compliance Review Panel reports directly to the Board of Directors. In 2004, the Compliance Review Panel initiated new investigations of two projects and monitored implementation of remedial measures for affected populations on a third project. The 2005 ADB budget includes a 12 percent increase in funding for the Compliance Review Panel .

Accountability is also promoted through the Operations Evaluation Department or OED. The OED evaluates the effectiveness of the Bank's operations at the project, sector, and country level, and assesses the contribution of those resources to a country's overall development. As a result of strong U.S. advocacy, a number of important reforms were made last year in the operation of the OED. The OED now reports directly to the Board rather than through the President and the appointment of the head of the OED is a decision of the board, upon nomination by the President . The OED's work program is subject to Board approval and the OED has unfettered access to all information and individuals it deems necessary to fulfill its work program.

Project-Level Efforts

The ADB has a number of tools to reduce the risk of corruption in project design and implementation.

On the prevention side, we would like staff to take greater advantage of their consultations with executing agencies and local contractors to address corruption head-on and recommend improvements in design that mitigate fraud. An increasing number of projects include strict anticorruption safeguards including, most recently, the subregional transport facilitation project in Nepal, the Sri Lanka tsunami rehabilitation project, and the Bangladesh independent anticorruption commission project. We would like to see more.

We encourage project staff to be more proactive in reporting allegations of corruption to the Auditor General. The Bank uses an array of measures to protect the identity and confidentiality of whistleblowers including the use of a special telephone line to report allegations of corruption and secure fax lines and email addresses for staff from the Integrity Division. These protections are helpful, but we would like to see ADB management do more to encourage staff to come forward with claims of fraud and corruption and to guarantee that those who do will be protected. The Auditor General's Office is revising its Terms of Reference to further strengthen these protections.

Encouraging ethical behavior in staff also requires the right incentives. The ADB is increasingly using specific targets in project documents to measure development outputs and it is our goal that these be incorporated in every set of project documents as soon as possible. To ensure that results are actually achieved, the U.S. and other major shareholders have pushed

strongly for a system that rewards staff for the quality, not the quantity, of their work. As part of this, staff should not only be assessed on achievement of development outcomes, but also on how well they comply with ethical guidelines. We will press for these standards to be implemented in the new human resources policy.

Related to this, the ADB has been actively implementing its administrative sanctions policy. Under this policy, the Bank rejects a proposal for award of contract where corrupt or fraudulent practices were used by the bidder, cancels the financing allocated to a contract if ADB determines that the beneficiary has engaged in corrupt practices, and debars the individual or firm from doing business with the ADB in the future. As a result of strong advocacy by my office and the Treasury Department, the ADB agreed to add two new professional staff to the Office of Auditor General in 2005 to strengthen its anticorruption oversight and to double the number of “spot” project procurement audits. In 2004, the Bank halted disbursement on two loans for Indonesia because of corruption concerns. We hope to see a similar aggressiveness in investigating allegations of corruption in other countries.

Finally, ADB resident missions in each borrowing country play a critical role in providing oversight for project implementation. Our goal is to ensure they have adequate resources to provide ongoing project supervision and fiduciary oversight over procurement processes.

Country-Level Efforts

Governance assessments are an integral part of every ADB Country Strategy and Program. These assessments measure government performance against an array of benchmarks including anti-corruption efforts, institutional strength, public administration, government interference in the economy, and transparency. Recently, there have been greater efforts to cooperate with and harmonize these assessments with those of the World Bank. During 2004, new assessments were initiated for Azerbaijan, Uzbekistan, Nepal, Laos, Afghanistan, India, and Sri Lanka.

The ADB is providing substantial amounts of assistance to help build accountable public-sector institutions and develop national anti-corruption efforts at the country level. In 2004, lending for good governance increased 56% from \$450 million to \$700 million, and we expect further growth this year. Let me elaborate on a few of the Bank’s most notable programs.

An ADB initiative in Balochistan Province, Pakistan is designed to reduce corruption by mandating third-party assessment of all projects and independent audits of district accounts. In Bangladesh, the ADB helped the national government to establish an independent Anticorruption Commission to investigate and prosecute cases of corruption and fraud. The ADB is helping the Government of Vietnam to develop a grievance mechanism for handling complaints about corruption and to strengthen the oversight role of the National Assembly. Technical assistance to Indonesia, Micronesia, Thailand and Bangladesh has helped these countries privatize state-owned enterprises, reducing the corruption that often accompanies such companies.

At the regional level, 23 countries have endorsed and drafted action plans as part of an ADB-OECD Anticorruption Initiative for Asia and the Pacific. The ADB and OECD are also working with the UN to help participating countries in Asia and the Pacific to ratify the UN Convention Against Corruption. In November 2004, the ADB provided \$250,000 in technical assistance to help regional countries comply with the terms of the initiative.

At the 2003 APEC Summit in Bangkok, leaders supported a proposal by the U.S. to establish a Cooperation Fund for Regional Trade and Financial Security Initiative. To date, Australia, Japan, and the United States have each committed \$1 million to the trust fund, which is run out of the ADB and will support technical assistance for anti-money laundering, customs modernization, and port security in developing member countries. Treasury's Office of Technical Assistance has secured an expert who is working with the ADB to implement the trust fund and provide expertise for other Bank programs. These efforts will reduce the likelihood that public and private funds will be appropriated for illicit purposes.

Finally, to ensure that countries with good governance are commensurately rewarded, the United States and other ADB donors agreed last year to substantially increase the weight given to good governance – which includes anti-corruption – in the performance-based allocation system for the Asian Development Fund. This system provides a clear incentive for countries to tackle governance issues in order to receive greater resources. The ADF allocations that result from the performance-based allocation system are made public.

Conclusion

To conclude, Mr. Chairman, let me say how seriously I take the threat corruption poses to the effective development of poor countries. The ADB has undertaken some important initial reforms but the proof of success is sustained effort. Reform is needed both within the Bank, to ensure that the ADB establishes a zero tolerance culture for corruption, and in the Bank's dealings with borrowing countries. The ADB must be more willing to call corruption by its name, and punish those who perpetrate it. This will require greater ownership from borrowing countries and stricter sanctions for those who violate the public trust, whether they are ADB staff, consultants, or employees of executing agencies. The U.S. is fully committed to this agenda and will continue to exercise our leadership and influence to ensure its success.

Thank you.